

FINANCIAL TIMES

AIRCRAFT

Clouds close
in on Boeing

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Monday February 19 1990

World News

Asean moves
closer to
isolating
Khmer Rouge

The international campaign to isolate the Khmer Rouge in Cambodia was boosted when the Association of South-east Asian Nations condemned the faction for past atrocities and said it must not be allowed to regain power by force.

This is the first time the Asean countries have attacked the Khmer Rouge by name.

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Mongol opposition

A democratic group seeking to end Mongolia's 69-year-old communist system proclaimed itself the nation's first opposition party.

Page 5

Norway favours EC

Norwegian opinion has swung sharply in favour of membership of the EC, according to a poll published in the newspaper, Dagbladet.

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Tyre fears recede

Fears were receding that a huge pile of burning tyres would create an environmental disaster for a rural area of southern Ontario, Canada.

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Soviet discontent

A rally of 50,000 protesters in Dushanbe, capital of Tajikistan, called for sweeping political reforms in the Soviet republic amid signs that heightened political discontent was spreading through Soviet central Asia.

Page 2

Castro confirms

President Fidel Castro set out to streamline the main structures of Cuba's Communist Party to cope with the island's deteriorating economy and challenges presented by rapid change in both the Soviet Union and Comecon, the Soviet-dominated trading bloc.

Page 3

UK offers carrot

Britain held out the prospect of resumed aid to Vietnam as a carrot to try to persuade Hanoi to accept a possible return of more boat people from overcrowded camps in Hong Kong.

Page 3

Airbus grounded

India will ground its 14 remaining A320 Airbus airliners from today because of public fears about their safety after the Civil Aviation Minister said.

Hong Kong protest

Hundreds of Hong Kong residents staged a protest rally against compromises between Peking and London on the colony's political future when China takes control from 1997.

Reagan taped

Former US President Ronald Reagan completed two days of video-taped court evidence on how much he knew about his national security adviser's role in the Iran-Contra scandal.

Sharon to fight

Ariel Sharon, who formally submitted his resignation as Israeli trade minister, said he would run for leadership of the right-wing Likud before the next general election, due by the end of 1992.

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Clashes in Taiwan

Taiwan opposition protesters clashed with police in the northern port of Keelung in the first violence of the island's presidential election campaign.

A call to arms

The Popular Front for the Liberation of Palestine called on Palestinians to take up arms against Israel within the occupied territories and across the borders of the Jewish state.

Nepalese riot

Thousands of Nepalese students and political activists defied police batons and tear gas to take over central Kathmandu in the first anti-government demonstration for 11 years.

Fatal jailbreak

A prisoner fell to his death and another was seriously injured when gunmen who hijacked a helicopter tried to pluck them off the roof of a French maximum security jail south of Paris.

Crash kills 19

A truck loaded with wheat crashed head-on into an inter-city bus in northern Chile, killing 19 people and injuring 31 others.

Unclaimed jet

Taiwan customs officers are baffled by an unexpected piece of unclaimed baggage: a Chinese-built replica of a Soviet MIG-19 jet fighter discovered in a shipment from Japan.

Business Summary

Gorbachev
adviser
backs market
economy

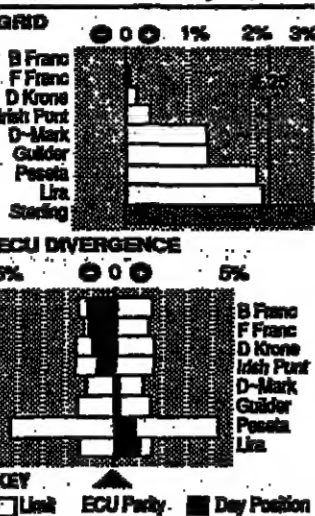
Professor Nikolai Petrakov, recently-appointed personal economic adviser to Mikhail Gorbachev, remains committed to the total transfer of the Soviet economy to a "normal market economy." In an interview with the Financial Times, he spelt out his uncompromising dedication to radical market-oriented reform.

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EUROPEAN Monetary System

Worries about the inflationary impact of possible German monetary union, plus a firm dollar, kept the D-Mark subdued and generally out of favour last week. This meant there was no pressure on the EMS. The Italian lira was the strongest currency, and at times the French franc was the weakest. The Belgian franc finished as the weakest member on Friday, but within its cross-rate limit against the lira.

EMS February 18, 1990



The chart shows the constraints on EMS exchange rates. The upper grid, based on the system's weakest currency, defines the cross-rates from which only the franc may depart by 2.5 per cent. The lower chart gives currencies' divergence from the central rate against the European Currency Unit (ECU).

GENERAL MOTORS' European operations achieved record net profits last year of \$1.83bn, confirming the financial transformation achieved by the world's largest vehicle maker in Europe in the late 1980s.

Page 15

HONG KONG retained its position as the world's busiest offshore port last year, with more than 4.4m ton (twenty-foot equivalent units) handled, an increase of 10 per cent over the previous year.

Page 4

DREXEL Burnham Lambert's demise and the collapse of the US junk bond market has brought on a bout of credit revision in the US, particularly damaging the market in subordinated or "mezzanine" loans.

Page 20

BANCO Hispano Americano of Spain and West Germany's Commerzbank have begun talks with Banco di Roma, a state-controlled Italian bank, which may result in the three banks exchanging equity holdings.

Page 21

ECHO BAY Mines, North American gold producers, saw shares fall by 12 per cent after the company revealed there was far less gold and silver in its McCreary-Cove deposit in Nevada than previously estimated.

Page 21

ZURICH Group is the latest company to have run into trouble because of the adverse conditions in the UK property development and construction sectors.

Page 23

SHARER buy-back programme of BAT Industries, the tobacco-based conglomerate which has been under bid threat from Sir James Goldsmith's Hoyleke consortium, has faced sharp attack in regulatory hearings before the California Insurance Department.

Page 23

MACK TRUCKS, US vehicle manufacturer battered by a sales slump, reported a further loss for the year, with Wall Street had expected.

Page 21

POLAND has ended a long period of uncertainty about future plans for its motor industry by signing a letter of intent on co-operation with Italy's Fiat Group in the production of a medium-sized passenger car.

Page 2

FRANKLIN Savings Association, a Kansas-based savings and loan with assets of \$11.4bn, has become the latest troubled thrift to be taken under the control of US federal regulators.

Page 21

Foreign troops must stay in Germany says Thatcher



Prime Minister Margaret Thatcher acknowledges the applause of Britain's leading Jews after her speech yesterday

MRS MARGARET Thatcher yesterday underlined her concern at the potential threat to Western security posed by unification of the two Germanys by insisting that Nato troops must remain indefinitely on German soil.

In a speech to the Board of Deputies of British Jews, the British Prime Minister also suggested that, for an interim period at least, the Government of a united Germany should accept a Soviet presence in what is now East Germany.

More broadly, she said that the collapse of communism in Eastern Europe would offer

Britain the opportunity to make some reductions in its defence forces.

She emphasised, however, that such cutbacks could be made only in the context of balanced reductions by both Nato and the Warsaw Pact and that the Government would do nothing which put Britain's security at risk.

Mrs Thatcher was careful to stress that Britain had always backed German unification if it was the result of the "freely-expressed" will of the people of both states. She also praised Chancellor Helmut Kohl's commitment to Nato.

The Prime Minister added, however, that unification

should not make others - in Western and Eastern Europe and in the Soviet Union - feel less secure.

"That means that we want to see Germany remain part of Nato, with American and other troops stationed there, with some special arrangements for East Germany, to meet the Soviet Union's security concerns. Indeed it would be quite reasonable for some Soviet troops to remain there at least for a transitional period."

In parallel, she added, Britain understood and fully supported Poland's wish to see its western border guaranteed by treaty.

remarks - and the choice of audience - appeared to confirm her deep anxiety about the speed of recent events in Europe, and her determination to ensure that the rights of the four powers in Germany were respected.

Underlining the need to preserve existing treaties and boundaries she added that "it is on the basis of four-power rights and responsibilities that the allies have preserved West Berlin's freedom for over 40 years."

Mrs Thatcher's stance has led to a significant rift with Bonn, and to divisions in

Continued on Page 18

Japanese give LDP decisive victory in big poll turn-out

By Ian Rodger in Tokyo

THE Liberal Democratic Party, which has ruled Japan since 1955, overcame widespread public dissatisfaction with its policies and its corrupt ways to score a decisive victory in yesterday's general election.

By the time the final votes were counted early this morning, the LDP was expected to win more than 270 of the 512 seats in the lower house of the Diet (parliament), giving it overall control. An unusually high turn-out, 73.37 per cent, testified to interest in an election which the LDP said was about a choice between freedom and socialism.

LDP leaders' delight with the result was tempered by the expectation that it would face obstacles in gaining approval for its legislation for the next few years - the party lost control of the upper house of the Diet in last July's elections.

Also, party leaders know that the US and other foreign governments will feel free to pursue demands for Japan to open its markets wider to imports now that the political situation has become more stable.

Mr Ichiro Ozawa, the LDP's secretary-general and chief strategist for the election, predicted last night that the 1990s would be "a harsh period for Japan in the international community." Already this week, two US delegations are visiting Tokyo to discuss on structural trade barriers and security issues.

Yesterday's win confirms a remarkable recovery for the LDP after last July's upper house elections when voters deserted the party in droves because it had introduced a 3 per cent consumption tax and opened agricultural markets, and because some of its leaders had become entangled in bribery and sex scandals.

All the leading LDP politicians implicated in the Recruit

bribes scandal last year, including Mr Yasuhiro Nakasone, the former Prime Minister, and Mr Kiichi Miyazawa, the former Finance Minister, won back their seats yesterday and will now claim to have been purified by the election.

Mr Nakasone said: "I think the matter has been settled. The public has made its judgment." Mr Toshiki Kaifu, the minor LDP figure pushed into the Prime Minister's chair last July when the party needed someone untainted by Recruit, is likely to carry on for the time being.

Mr Ozawa said last night: "If we win a majority, that is a green light for him." The light is not expected to remain green for more than a few months. Mr Shintaro Abe, the former Foreign Minister who is among those "purified" of Recruit implications and who has wide support in the party, is manoeuvring vigorously to replace him.

Among opposition groups, last summer's trends continued, with the Japan Socialist Party (JSP), the largest opposition party, making substantial advances and marginal opposition parties being squeezed.

With 81 seats still to be decided last night, the JSP had won 114 - 39 more than it took in the 1986 election. The Japan Communist Party, which has been hurt by association with European communist regimes, had only 13 seats, half as many as it won in 1986, late last night.

Mr Taro Yamaguchi, JSP secretary-general, warned last night that the opposition parties, despite their varying fortunes, remained united in their opposition to LDP policies. In particular, they would continue to try to abolish the consumption tax.

No easy answers, Page 4; Editorial comments, Page 16; Winning foes, Page 17

The inconsistent taint of Recruit

VOTERS spoke out their judgments in various ways, writes Ian Rodger in Tokyo. In Japan's general election yesterday, they forgave and re-elected more than half of the politicians involved in the Recruit bribery scandal last year, but threw out the man who drafted the hated 3 per cent consumption tax and another who said last summer that women were useless in politics.

One of the main points of interest was what would happen to the score of politicians, including former Prime Minister Yasuhiro Nakasone and Noboru Takeshita and other former cabinet members, who had been implicated in the Recruit scandal.

The politicians let it be known that they considered the election to be like the Shinto purification rite, misop. If they won, then the taint would be considered washed away and they could return to office or, in the case of Mr Nakasone, return to the party.

Of the 29 who ran, 11 won, including Mr Nakasone and Mr Takeshita. Mr Nakasone suffered a significant slump in

his vote from 114,000 to 85,000 last year. Mr Takeshita suffered no loss at all. On the other hand, Mr Takao Fujimori, who is on trial for taking bribes from Recruit, scraped home only because two socialist candidates split the vote.

Voters were more severe in their treatment of Mr Seisaku Yamaguchi, former chairman of the Liberal Democratic Party's research commission on the tax system and architect of the unpopular 3 per cent consumption tax.

Despite 13 terms as a faithful representative of the peo-

ple of Kagoshima in the southern island of Kyushu, Mr Yamaguchi was rejected.

The former Agriculture, Forestry and Fisheries Minister, Mr Hisao Hironouchi, who was also defeated, will be less lamented. He achieved notoriety last July when anti-LDP sentiment was running high among voters by suggesting that women were useless in politics and should stay at home. He added that Miss Takako Doi, the socialist leader, was unfit to be Prime Minister because she was single and childless.

Later, he was allowed out of the room to speak to reporters. He told them: "You don't resign under the pressure of a mob. The demonstrators are made up of irresponsible elements and some of them are drunk."

Earlier, groups of youths broke free from the crowd and stormed the building, used by Prime Minister Pierre Roman since the revolution that toppled dictator Nicolae Ceausescu in December. The protesters broke windows to gain entry.

Mr Roman is on a visit to France. President Iliescu has moved his office to the old

Bank of England steps in to settle Channel tunnel row

By Andrew Taylor, Construction Correspondent, in London

THE bitter row between Eurotunnel, the troubled Anglo-French consortium building the English Channel tunnel, and its contractors over Mr Alastair Morton's abrasive leadership of the project is close to being resolved following intervention by the Bank of England.

Eurotunnel is understood to have agreed to strengthen further its project management team by appointing a new senior executive who would be expected to act as a buffer between Mr Morton and the contractors. This post would be in addition to the appointment of two new senior managers, announced last week.

A meeting chaired by Mr Robin Leigh-Pemberton, Governor of the Bank of England, took place between Eurotunnel and its British contractors at the Bank's headquarters in London on Friday.

The British contractors appear to have been satisfied that Mr Morton would be distanced from the day-to-day

management of the construction contract following his appointment last week as Eurotunnel's chief executive, which would leave him in overall charge of the project.

Mr Morton, currently co-chairman of Eurotunnel, now becomes deputy chairman of the group. The five British and five French construction companies contracted to design and build the project have opposed the appointment of Mr Morton, as Eurotunnel's chief executive. Mr Morton has strongly criticised them for delays and the increased cost of the project which has risen to \$7.2bn compared with an original forecast of \$4.8bn.

The contractors have so far refused to sign an amended construction agreement which would allow Eurotunnel to start drawing down \$400m of temporary finance negotiated with its bankers last month.

To complicate matters, Eurotunnel on Friday was ordered by the French courts to pay the contractors \$53m in unpaid

fees. Eurotunnel says it cannot comply until the contractors sign the agreement and its funds are unfrozen.

The contractors are expected to drop their legal action provided the French construction companies accept the new management structure. French companies, which were not present at the Bank of England meeting, have had disagreements with Mr Morton but are less antagonistic towards him than the British contractors.

The relationship between Mr Morton and Sir Clifford Chetwood, chairman and chief executive of Wimpey, one of Britain's biggest construction companies, has been particularly stormy. A joint statement by Eurotunnel and the contractors announcing the new management structure and the signing of the construction agreement could be made today provided the all parties agree and the necessary legal requirements can be met.

Continued on Page 15

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The thorniest problem facing David Calcutt, chairman of the UK's takeover panel, is drawing up a common European takeover code. Not surprisingly, he favours the UK approach, but will Europe listen to his argument?

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OVERSEAS NEWS

Political unrest spreading in Soviet central Asia

By Mark Nicholson in Moscow

A RALLY of 50,000 protesters in Dushanbe, capital of Tajikistan, yesterday called for sweeping political reforms in the Soviet republic amid signs that heightened political discontent was spreading through Soviet central Asia.

At the same time the Communist Party newspaper, *Pravda*, warned at the weekend that "civil confrontation, chaos and instability" could prompt a sharp crackdown on opposition groups.

The editorial said the process of perestroika had to be guarded against what it described as a growing strain of "extremist" opposition. *Pravda* warned: "People are demanding stabilisation, but the key question of the day is how will this stabilisation arrive? On the basis of developing democracy or on the basis of tightening the screws, using the old methods of force from the past?"

In Dushanbe yesterday, residents contacted by telephone, said that at least 50,000 people gathered by the party headquarters to call for the resignation of all the republic's top state and party officials and to repeat a list of sweeping political and economic demands. Mr

Mirboboi Rahimov, a member of a provisional committee formed during riots which raged through the city early last week, said in an interview that the protest was called in anger that the party had not approved the resignations of Tajikistan's party chief, prime minister and president of the Supreme Soviet's presidium, all of whom offered to quit last week.

He said the provisional committee also sought the immediate removal of troops from the city, mobilised to police a state of emergency declared last Monday, and for the republic's complete economic autonomy.

Mr Rahimov said there was deep anger that party leaders in the republic had so far made only cosmetic concessions - including renaming some city streets after the dead in last week's riots.

He added: "The people here are very determined. We will not stop until all our demands are met. It is a revolution."

Mr Rahimov also said that the riots had claimed at least 70 lives, against an official Interior Ministry toll of 15. Reports of unrest also surfaced over the weekend in the neighbouring republic of

Uzbekistan, where local opposition groups in the city of Samarkand claimed that Interior Ministry troops were flown in on Saturday to quell fighting between the traditionally antagonistic Uzbek and Tadzhik peoples.

Soviet journalists confirmed the reports in the face of a flat Interior Ministry officials' denial.

The Soviet news agency, Tass, said that an "already tense" political mood in the republic, which went to the polls yesterday in republican parliamentary elections, had been whipped up by rumours and leaflets circulating the city calling for the removal of all ethnic Russians from central Asia. The report said that one man had also been arrested for distributing anti-Armenian propaganda.

Concerted opposition to local Communist Party leaders also continued elsewhere in the Soviet Union at the weekend as regional elections approached. Separate rallies in the towns of Lvov in the Ukraine and Novgorod, near Leningrad, called yesterday for the resignations of their regional party committees.

Meanwhile, in the Urals town of Sverdlovsk, where the regional party chief was forced to resign under popular pressure earlier this month, local party activists are now seeking the resignation of all 145 members of the regional committee. "People are sick and tired of the deafness of these executives," one city party chief told Tass yesterday.

The Supreme Soviet of the Ukraine yesterday voted by a large majority in favour of closing down the two nuclear reactors in Chernobyl, which remain in operation.

In a bill on the issue, the parliament said that the Ukraine faced an ecological catastrophe, and that 43 cities had dangerously high air pollution.

Gorbachev brings perestroika to space policy

By Mark Nicholson in Moscow

TWO cosmonauts come down to earth today leaving a pair of colleagues in the orbital space station Mir to begin the Soviet Union's first exercise in gravity-defying economics.

The Alexanders Vitrenko and Serebryakov will land having completed a five-month stint in Mir, manned on and off since its launch in February 1986, which Soviet officials say cost Roubles 90m (about \$30m).

Their mission also included the highly uneconomical use of a motor-cycle in outer space.

Their replacements, Anatoly Solov'yov and Alexander Balandin, will by contrast undertake a mission which Soviet space officials say will cost Roubles 8m, but earn Roubles 105m.

It will, say officials, be the country's first profitable space mission. It is also the first application to the space programme of Mr Mikhail Gorbachev's new perestroika regime of "self-financing", whereby enterprises nationwide are loosened from the shackles of centralism

and made responsible for their own profitability.

Solov'yov and Balandin docked with Mir last week trained and ready to receive a special module, due to join them in April, with which they will produce crystals under weightless conditions with a purity and quality impossible to attain on earth.

These super-crystals will then be bought by a variety of Soviet enterprises to develop into a range of industrial uses, notably in electronics where they are likely to have applications in expanding computer power.

The mission will also produce biomedical materials, such as intertension. "Factories which placed their orders with the cosmonauts are waiting impatiently to put them to use," said the official news agency Tass last week.

The official Soviet media have in fact made much fanfare over the first money-making mission, not least because there has been a rising tide of domestic protest over the huge cost of

the Soviet space programme - some Roubles 12.9bn last year - in a country unable to meet its peoples' demands for food and consumer goods.

Cosmonauts may be national heroes, but you don't see them queuing for bread.

Moreover, the Government is also demanding greater accountability from the space programme, having formally acknowledged last year the urgency with which it must attack its Roubles 100m budget deficit.

From the mundane vantage point of the economist, though, there are one or two snags in this self-financing Mir mission.

To start with, the crystals can be produced only in tiny quantities as samples. Moreover, since no such crystals have ever been made in large quantities, there does not yet exist an industrial market for them.

The Soviet enterprises will, therefore, not be buying them to make products for resale, but rather for research and

development. And however the enterprises put down the cost of the crystals they buy in whatever books they keep (Soviet accounts are marginally less impenetrable than the secret's deep space) the Government, one way or another, finally pays the bill for R&D in the very same enterprises. This is either by direct central funding or through complex arrays of subsidies.

So, assuming that the enterprises pay for their crystals, assuming the cosmonauts defy Soviet laws of supply by delivering them, and disregarding the government's opportunity cost of forwarding them Roubles 105m to do it, the Government will finally be paying out a net Roubles 20m for its first profit-making space mission.

But as Tass reflects: "It is actually important to count all benefits from basic astrophysical research, the results of which sometimes modify mankind's world outlook." Sometimes on economics, apparently.

Mongolians opt for democracy

A DEMOCRATIC group seeking to end Mongolia's 69-year-old Communist system proclaimed itself the nation's first opposition party yesterday, *Ulan Bator*.

"Long live the Mongolian Democratic Party," shouted the leader, Mr Dognidyn Sosorbarsan, to a standing ovation from 500 delegates inside a large auditorium.

The party has grown out of the Mongolian Democratic Association, which has staged public rallies since its inception last December, and has

frequently criticised the Communist Party for causing an "economic and spiritual crisis" in Mongolia.

The Prime Minister, Mr Donsaigyn Sodnom, told Japanese journalists on Saturday that he thought a one-party system was a bad idea, giving the clearest indication yet that Mongolia's constitution could be amended later this year to legalise opposition parties.

But the concessions have only strengthened the democratic movement.

Western diplomats have said the democracy movement poses the most serious threat

ever to the Mongolian People's Revolutionary Party, and it has grown rapidly since December.

At the congress, leaders of the movement announced for the first time they had received support from their "Mongolian brothers and sisters" living in China.

Some 500 Mongolians live in the Chinese province of Inner Mongolia, where anti-Chinese feeling is reported to be strong but kept under control.

Ulan Bator's ruling Communist Party has in recent weeks granted many concessions to demands for real political changes.

Prague party expels Husak's group

THE former President, Mr Gustav Husak, and former Prime Minister, Mr Lubomir Strougal, and 20 other leading former officials have been expelled from the Czechoslovak Communist Party, *AP* reports from Prague.

In addition to Mr Husak and Mr Strougal, five officials who were on the Politburo until recently, were stripped of party membership, the state news agency, *CTK*, reported.

The expulsions were proposed by a commission investigating the political responsibility of former senior party officials "for the crisis develop-

ment" in the past. They were announced after a session of the party's central committee.

These functionaries were "responsible for wrong political decisions they took in the party - functionaries," *CTK* reported, quoting from a party announcement released after the meeting chaired by current party chief, Mr Ladislav Adamc.

Mr Husak, installed as party head in 1969 following the Soviet-led invasion of Czechoslovakia in August 1968, was replaced as head of the party by Mr Milos Jakes in December 1987. But Mr Husak continued

as President of Czechoslovakia, a post he lost during the country's peaceful revolution to the dissident playwright, Mr Vaclav Havel, who took office on December 29.

Mr Husak, Mr Strougal and some 30 other party officials had already had their party membership suspended during a stormy party congress in December.

CTK said the 22 expelled party functionaries "participated in pursuing the undemocratic directive system of management that, stage by stage, paralysed the internal life of the party."



Russian nationalists protest in a Moscow park yesterday

Tyres fire pollution 'controlled'

By Bernard Simon in Toronto

FEARS WERE receding yesterday that a huge pile of burning tyres would turn into an environmental disaster for a rural area of southern Ontario. Government officials have yet to assess precisely the potential long-term effects of the fire, which began a week ago in a privately owned dump of 13m discarded tyres covering about seven hectares near the farming centre of Hagersville, 50km south-west of Toronto.

But an Ontario environment ministry official said yesterday there was no evidence yet of oil from the tyres seeping into local ground water supplies, nor of serious air pollution.

"We're encouraged that we've been able to contain the oil and collect it," he said.

The official estimated that about 40,000 gallons of oil seeping from the tyres had been removed to a nearby oil refinery. One tyre can secrete as much as two gallons of oil. Slight contamination has been caused, however, by water used for fire-fighting which was polluted with oil and various toxic substances.

Since the fire began, apparently through arson, the authorities have declared an evacuation area within a radius of about 4km of the dump and have advised about 1,700 residents to leave their homes.

The threat of long-term contamination of local water supplies will depend largely on the geology of the area, the exact nature of which is still not certain. The Ontario officials said authorities were still investigating whether the material below the surface is predominantly rock, sand or clay.

Tyre fires are notoriously difficult to extinguish, because of air circulating between the tyres and a wire-mesh lining which supports the pile above the ground. The authorities have been able to put out only about one-tenth of the Hagersville blaze. Based on similar but smaller fires in the US, some experts expect the fire to burn for at least a month.

Fire-fighting efforts were also hampered over the weekend by intensely cold weather, which grounded two water bombers usually used to fight forest fires.

The fire is likely to intensify research into the use and storage of the roughly 270m tyres discarded in North America each year. Several cement companies, for example, have proposed using them as fuel in kilns.

The Ontario environment ministry ordered the owner of the Hagersville dump in 1987 to take steps to minimise the dump's pollution hazards. However, the owner has spent the past three years appealing against the government's order.

Italy to hit the kidnapping industry where it hurts

By John Wyles in Rome

THE Italian Government, having manifestly lost the battle to stamp out the national kidnapping industry, has opted for a hard line aimed at preventing the payment of ransoms.

At the end of last week, the Cabinet adopted an impressive package of proposals prepared by the Ministry of the Interior, Mr Antonio Gava, designed to block as many avenues as possible towards the payment of a ransom.

There are few other crimes in Italy which arouse so much public anger against the perpetrators and sympathy for the victims as kidnapping. The targets are invariably the children or close relations of wealthy business families in the north and who usually cannot expect to recover their loved ones without paying at least 15m (\$1m).

This is what Mr Luigi Casella of Turin had to pay in two tranches to achieve the return of his 20-year-old son, Cesare, who had been held for more than two years in the wilderness of Calabria's Aspromonte mountains.

Paola Celadon of Vicenza has already paid with 15m without securing the freedom of her brother, Carlo, while Mr Pierluigi Corbelli, an engineer from near Varese, is still waiting for a price to be put on his 22-year-old son, Andrea, who was taken a year ago.

Last August Andrea's kidnappers employed a now almost ritual act of sadism to prove their possession and to pressure his family: the despatch of personal documents accompanied by a piece of his ear.

Hilberto, investigating magistrates have had the discretion to seize a family's liquid and capital assets.

But many have refrained from doing so in the belief that the restrictions can always be evaded, or that it placed an intolerable pressure on the victim's family.

The government's new proposal not only provides for the seizure of all assets, but also imposes penalties on anyone seeking to help a family to pay a ransom.

Among other things, it would be illegal for an Italian or foreign insurance company

to issue a policy against kidnapping. The likelihood of the Italian state actually equipping itself with such weapons in the short term is rather remote.

There is sufficient uncertainty among legislators and magistrates about the wisdom of the "hardline" approach.

These doubts have guaranteed a welter of amendments which will delay the government legislation for months and probably years.

So the draft legislation will have no more than a symbolic one-government's view of how to stamp out kidnapping.

Snow dragons send tremors through French ski industry

By Paul Abrahams in Paris

AS LATE as the 18th century, peasants in the French Savoyard Mountains believed the high valleys were controlled by snow dragons: it was they who launched avalanches that threatened villages.

Over the weekend, the snow dragons were mocking the French ski industry.

Ski stations there are facing a bleak future. This is the third year that the mounds have not arrived for the start of the skiing season in December. Both French and foreign skiers have, as a result, started coming later in the season, in fewer numbers and for shorter stays.

With only four short winter months in which to amortise the high cost of investment in new lift capacity intended to ensure customers can reach high into mountains to reach what little snow there has been, the lift-operating companies are finding times difficult.

Some in the French Alps are technically bankrupt.

Their situation has only partly been relieved by recent massive snowfalls in the region. The irony is that when the snows did come there was far too much far too quickly.

The snow started falling last Wednesday, only stopping on Saturday - in some places 3 metres deep, as might normally be expected in a month.

The result was that Val d'Isère, favourite resort for Sloane Rangers, high at the end of the Tignes Valley, was cut off with its neighbouring resort of Tignes for three days until Saturday because of the danger of avalanches. Other stations to the west, such as Les Arcs, were in a similar position.

Such heavy falls could not come at a worse time for the resorts. This coming week is

the most important one in the season - the Parisian schools close on February 21 to allow families to leave for the Alps.

They will not have been impressed by TV images of traffic jams stretching along Tignes Valley from Bourge Saint Maurice to Albertville, nor by warnings by Mr Brice Lemaud, Secretary of State for the Environment, to delay their departure for at least 48 hours. One TV poll suggested as many as 46 per cent of families were considering abandoning their skiing holidays.

For the foreseeable future, the slopes remain highly dangerous. At Val d'Isère, despite clear weather, only 16 runs were open yesterday because of the danger of avalanches.

The Tourist Office says that off-piste skiing away from marked trails is forbidden. The new snow has fallen on an extremely thin and sometimes non-existent base. This means there is little friction between layers and the snow is highly unstable.

There is a risk of deaths in the Alps in the coming weeks. However, it is not clear how

long the snow will last. Temperatures in the Alps are unusually high for this time of year, increasing the risk of avalanches as well as the probability that the snow will quickly melt.

Financial implications for the French ski stations are extremely serious.

For some smaller resorts which do not have resources to invest in new lift capacity or snow-making machines, the future does not appear healthy. Many are already heavily indebted to the French government and are likely to be bankrupt at the end of the season.

A third poor season is likely to result in complete restructuring of the organisation and marketing of larger ski stations. Many of these resorts, which have heavily invested in new equipment in recent years, are also in a financially unenviable position.

Lift operators have seen revenues decline at the same time as property developers have experienced falling prices for new and second-hand apartments.

A new company, called La Compagnie des Alpes, has been set up by the government organisation, Caisse des Dépôts, to help market larger resorts abroad. At present, French stations have a poor record for attracting foreign skiers.

Local Savoyard people are also pinning their hopes on the Winter Olympics in 1992 which will be held at the end of the Tignes Valley in Albertville. Clearly, the best years of the market for *for blanc* - or white gold, as snow is known in the region - appear to be over. It remains to be seen how much and for how long it has lost the shine.

Andreotti recants on German reunification

By John Wyles in Rome

MR GIULIO ANDREOTTI, the Italian Prime Minister and architect of the country's foreign policy for much of the last 10 years, has recanted his opposition to German reunification.

After brief talks with West German Chancellor Helmut Kohl in Pisa at the weekend, Mr Andreotti said that his view

on reunification had changed along with the international situation.

"Not that it needs my particular blessing, but I believe that things are very different from what they were a few years ago," he added.

In September 1984 when he was Foreign Minister, Mr Andreotti created a major diplomatic incident with Bonn by declaring at a public rally in Italy: "There exist two German states, and there should remain two German states."

However, in Pisa, where both leaders were attending a gathering of European Christian Democrats, Mr Kohl did not reward this change of heart with a softening of Bonn's refusal to bring forward the European Community's intergovernmental conference on European integration and monetary union.

Fiats in accord for Polish car

WARSAW has ended a long period of uncertainty about its plans for Poland's motor industry by signing a letter of intent on co-operation with Italy's Fiat Group for production of a medium-sized passenger car, *John Wyles writes*.

Fiat will now be involved in designing and producing the two successors to the Fiat 125 and 126 models which have been produced in Poland for many years. The understanding could lead to a joint venture for output of a vehicle based on the Fiat Tipo.



Andreotti Talks with Kohl

NEWS IN BRIEF

India to ground its A320 Airbus fleet after crash

New Delhi: India will ground its 14 remaining A320 Airbus planes from today because of public fears about their safety, the Civil Aviation Minister, Mr Arif Mohammad Khan, said yesterday, *Reuters* reports.

A two-month-old Airbus crashed, killing 90 people, in Bangalore, south India last week. Indian news agencies quoted Mr Khan as saying that since last Wednesday's crash, there had been four reports of technical faults with other Indian Airlines Airbus which had shaken public confidence.

An inquiry into the crash is expected to focus on whether pilot or computer error caused the high-tech plane's crash in fine weather about a mile short of the runway.

The aircraft that crashed in Bangalore was delivered only on December 24, one of 15 A320s received by India's domestic carrier, which is awaiting another four with an option on 11 more.

Iranians call for death sentence

Teheran Demonstrators demanded that British author Salman Rushdie be killed and Iran's top judge, in an apparent rebuff for President Rafsanjani, called the death edict irreversible.

Witnesses said about 4,000 demonstrators chanting "Death to Rushdie" held a 90-minute rally in the street outside the building which used to house the British embassy.

Diplomatic ties were cut last March over the late Ayatollah Ruhollah Khomeini's order that Rushdie be killed for blaspheming Islam in his book *The Satanic Verses*.

"This is not an opinion or a fatwa (religious decree) on which another ruler or judge could voice his views," judiciary chief Ayatollah Mohammad Yazdi said on Teheran Radio.

"This is a decree, and like all other judicial issues and sentences, it is unalterable and must be enacted," Yazdi said in the broadcast monitored by the BBC.

President Ali Akbar Hashemi Rafsanjani on Friday described the decree, issued a year ago this month, as the view of one expert which could be debated by others.

Chaos in Comoros elections

Moreni: The Comoro Islands' first free elections broke up in disarray yesterday as President Said Mohamed Djohar rejected opposition demands for a re-run. *Reuters* reports.

Seven opposition presidential candidates, alleging voting irregularities, met Mr Djohar to press a joint demand for him to step aside immediately, suspend Sunday's elections and organise a new ballot within eight days. But Mr Said Ali Kemal, speaking on behalf of the seven candidates, told reporters afterwards that Mr Djohar had refused to resign.

Kopp trial gets underway

Zurich: The trial of Mrs Elizabeth Kopp, the former Swiss Justice Minister, begins today, *Reuters* reports.

Mrs Kopp, Switzerland's first woman minister, had been tipped as the country's likely first woman president. Instead she is the first ex-minister to go on trial. She resigned in December 1988 after admitting she had tipped off her husband, Mr Hans Kopp, that the Shalorch Trading Company was under investigation for laundering drug money. He quit later that day but no charges have ever been brought.

Mubarak sets Moscow agenda

Aswan: President Hosni Mubarak said yesterday that his talks with the Soviet leader, Mr Mikhail Gorbachev, in Moscow next month would focus on Soviet Jews settling in Israel and the Israeli-held territories, *Reuters* reports.

Arab states fear many of the Jewish emigrants, expected to reach half-a-million over the next few years, will be encouraged by Israel to settle in the occupied territories. "This is Arab land and a disputed issue," he said.

Mengistu pledges 'fight to end'

Addis Ababa: The Ethiopian President, General Mengistu Haile Mariam, has called on his country's armed forces to fight "to the bitter end" against Eritrean rebels who have launched large-scale attacks in northern Ethiopia in the past 10 days, *Reuters* reports. Ethiopia still denies a claim by the Eritrean People's Liberation Front it has captured the Red Sea port of Massawa.

Manila snub for Cheney

Manila: The US Defence Secretary, Mr Dick Cheney, arrives in the Philippines today for security talks although President Corason Aquino has declined to see him, *AP* reports.

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OVERSEAS NEWS

Castro concedes need for shake-up

By Robert Graham, recently in Havana

PRESIDENT Fidel Castro has set out to streamline all the main structures of Cuba's Communist Party to cope with the island's deteriorating economy and challenges presented by rapid change in both the Soviet Union and Comecon, the Soviet-dominated trading bloc.

This appears to be the aim behind a government shake-up announced on Friday after an extraordinary plenum of the Cuban Communist Party's Central Committee. President Castro last month warned Cubans that "we are living in uncertain times". However, these are the first public steps the Cuban leader has taken in response to the fast evolving situation in eastern Europe.

New blood has been brought

into both the party's political bureau and the secretariat of the central committee as well as the Cuban embassy in Moscow. There is a new coordinator of the neighbourhood defence committees - the Committees for the Defence of the Revolution (CDRs) - which are the party's most direct means of grass-roots control. The leadership has also been changed in the umbrella labour organisation, the Cuban Workers' Federation, and in the farmers' union.

Official comments have cryptically referred to the need to "perfect the political and institutional system". However, there is no indication that President Castro has altered his frequently stated opposi-

tion to ending the vanguard role of the Communist Party and permitting political pluralism. On the contrary, the changes reflect crisis management to make the existing system work better.

Cuba faces another year of stagnant growth, a maximum sugar harvest of 7.5m tons and increasing dislocation in its dealings with Comecon partners. While the Soviet Union is still pledged to continue its aid, both sides are far from agreeing numbers.

Granma, the official news agency, said the changes would lead to "an improvement of the single Leninist party based on the principles of democratic centralism". Some observers have detected an increase in

the influence of the Armed Forces Ministry personnel at the expense of the Ministry of the Interior. This reflects a trend set in motion by the shake-up following the discovery last year that Interior Ministry officials were involved with the Colombian cartels.

General Batista Santana, a veteran of the African wars and former head of the sixth division, has been put in charge of coordinating the Neighbourhood Defence Committees. The CDRs have thus been earmarked for an enhanced role in controlling potential street discontent.

The shake-up in the trades union movement sees the departure of CTC leader Mr Roberto Veiga who has held



Castro: 'uncertain times'

the post since 1980. The CTC held its 16th congress last month and is drawing up new work codes. Shoddy work practices were last week criticised in a report into rail accidents.

UK holds out aid carrot to Vietnam

By Our Foreign Staff

BRITAIN held out the prospect of resumed aid to Vietnam yesterday as a carrot to try to persuade the Hanoi Government to accept the forcible return of more boat people from the overcrowded camps in Hong Kong.

Mr Francis Maude, a junior Foreign Office minister, arrived in Hanoi for four days of talks aimed at persuading the Communist regime to accept more mandatory flights from Hong Kong.

So far there has been only one flight which took 51 people, of whom only eight were adult males, back to Vietnam in December. Since then Vietnam, which has argued that each flight must be negotiated separately, has refused to allow any more. Britain agreed to pay \$650 (£385) for each person forcibly ejected from Hong Kong and, although the money has been paid by Britain for the first plane, none of it has reached the returnees themselves or their villages, although the agreement was that it should go towards their welfare and reabsorption.

Mr Maude said yesterday that Britain was willing to resume aid to Hanoi. It was stopped 12 years ago when Vietnam invaded Cambodia. But a resumption would be on condition that Vietnam "fulfilled its international obligations". Among these, he said, was the duty to accept back its citizens deported from other

countries. He would not give details of any aid he could offer, but said it would aim to consolidate economic reforms.

Hanoi officials say they believe economic improvements will help dissuade more boat people from setting off from Vietnam but Hong Kong officials, already struggling with 56,000 boat people in camps, fear that the imminent sailing season could see up to 40,000 more leaving.

Mr Emma Davies, the British ambassador in Hanoi who has been liaising with the communist government on ways to stop the flow and bring the boat people home, said word appeared to be getting through that Hong Kong was a dead-end. The tales brought back by 1,169 Vietnamese who have returned voluntarily since March last year seemed to be turning the tide.

Britain accepts that Vietnam has effectively ended its military presence in Cambodia. This removes the cause of the original aid but although the US, still smarting from its defeat at the hands of the Communists in the Vietnam War, now says there must be a comprehensive settlement in Cambodia before it lifts the embargo on Vietnam.

Apart from the moral arguments Vietnam uses against mandatory repatriation, it also faces considerable difficulty with the reception and re-integration of hundreds of people.

Peking adamant over HK elections

By John Elliott in Hong Kong

BRITAIN's hopes of persuading China to speed up Hong Kong's pace of democratic development were dashed at the weekend when a senior Peking government official said it would not be possible to improve the colony's newly completed Basic Law before China regained sovereignty in 1997.

The law's plans for the introduction of democracy before and after 1997 have been widely condemned in Hong Kong where several hundred people staged a protest march yesterday to offices of the Xinhua News Agency, China's de facto embassy.

The UK agreed with China last week that it would start direct elections in Hong Kong with 18 seats in a 60-seat legislature next year, and then go up to 30. To dampen local opposition, the UK said last Thursday it hoped China would agree later to a higher figure than 20 for the 1995 legislature which is to continue in power after 1997 for a four-year term.

Asked on Saturday whether such an increase could be introduced before 1997, Mr Li Hou, secretary general of the drafting committee and a senior Peking official, simply said: "Bu kengde", which means "impossible".

The law was hailed on Saturday by Mr Deng Xiaoping, the veteran Chinese leader, as a "document of great historical importance".

The 85-year-old Mr Deng appeared at a final ceremonial meeting of the law's drafting committee with other top Chinese leaders, demonstrating the importance that China is giving to the approach of 1997 and the completion last Friday of the law. Speaking in a voice which wavered slightly, he said that the concept of "one country two systems", devised to unite communist China with capitalist Hong Kong, had "international implications for the whole of mankind".

Yesterday Peking's government-controlled People's Daily reported that Mr Deng had told visitors recently that he hoped to live to see the 1997 transfer of sovereignty and would then like to visit Hong Kong.

Cigarette marketing plan has health lobby fuming

By Peter Riddell, US Editor, in Washington

ARE you a "virile female", an 18- to 20-year-old American woman with only a High School education or less who dresses in jeans and sweatshirts and likes going to drag races, hot rod shows, wrestling and "tough man" competitions?

If so, then you may be a prime target of Dakota, a new cigarette brand to be test-marketed soon by R.J. Reynolds, a unit of R.J.R. Nabisco, the US food and tobacco group, according to an independent consultant's marketing plan leaked at the weekend.

The disclosure comes only a month after Reynolds was forced by public outcry to withdraw Uptown, a cigarette aimed specifically at blacks, and as the

Bush Administration is about to launch an initiative aimed against such targeted tobacco advertising.

Mr Louis Sullivan, Health and Human Services Secretary, said it was "especially reprehensible to lure young people into smoking and potential lifelong nicotine addiction. The risk that smoking specifically poses for women adds another tawdry dimension to any cigarette marketing effort aimed at younger women".

Reynolds has confirmed plans to market Dakota, but said it was aimed at both male and female "current adult smokers" of Marlboro, the leading brand sold by the rival Philip Morris company.

Moreover, Reynolds disclaimed direct knowledge of the marketing plan referring to "virile females", which was produced by Promotional Marketing, an outside consultant working for the tobacco group. Several other contractors have also been involved in planning the marketing of Dakota.

The report from Promotional Marketing, disclosed in Saturday's Washington Post, offers a profile of the "virile female", aged 18 to 24, who regards her work as a job rather than as a career, wants to get married in her early 20s and have a family, and spends her free time doing whatever her boyfriend likes.

The controversy over targeted adver-

tising comes when smoking is falling among Americans - down 6 per cent last year - though the decline is slower among less educated, blue-collar workers, women and blacks.

Tobacco groups argue that the advertising is only aimed at winning existing consumers from one brand to another, though public health officials criticise the targeting of these groups, who are the most susceptible.

One of the most successful brands, Virginia Slims, has been aimed especially at women.

Tobacco use is the largest preventable cause of disease and death among American women, according to official US research.

India mends its bridges with Kathmandu

By Rezauddin Ahmed in Dhaka

AN OFFICIAL Indian delegation is to visit Nepal to discuss terms for the withdrawal of the trade barriers imposed on the land-locked Himalayan kingdom by Mr Rajiv Gandhi, the former Prime Minister.

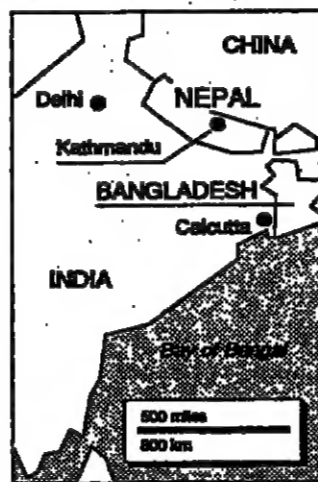
Mr Inder Kumar Gujral, the Indian External Affairs Minister, who announced the move yesterday during a visit to Bangladesh, also confirmed that India intends to complete the withdrawal of its troops from Sri Lanka by March 31.

Both statements underline the desire of Mr V.P. Singh, the new Indian Prime Minister, and his Government to

improve relations with India's smaller neighbours. Mr Gujral invited Mr Anisul Islam Mahmud, the Bangladesh Foreign Minister, to visit Delhi in May to discuss the bilateral problems of sharing the water of the Ganges River and 54 other common rivers, the return of tribal refugees to Bangladesh from the Indian state of Tripura and to explore the possibility of economic joint ventures between India and Bangladesh.

Mr Gujral said both sides took note of changes in the international community which suggested a new era of peace might have started.

South Asian countries must seize the new opportunities this afforded and make peace, stability and cooperation the basis for relationships between members of the South Asian Association for Regional Co-operation which groups Bangladesh, India, Nepal, Sri Lanka, Pakistan, Bhutan and the Maldives. This comment has special relevance for India and Pakistan, currently at odds over the disputed state of Kashmir. Mr Gujral said Kashmir was an internal Indian problem - a view rejected by Pakistan - and India was prepared to discuss the issue with Pakistan.



Nepalese riot over democracy

POLICE BATTLED with thousands of anti-government students and political activists in central Kathmandu on Sunday and at least four people were killed in clashes in the Nepalese countryside, Reuters reports from Kathmandu.

Banned political parties allied in the Movement for the Restoration of Democracy (MRD) defied an official crackdown to launch the first demonstrations in the capital against the Himalayan kingdom's non-party political system for 11 years.

Police baton-charged and tear-gassed thousands of protesters who repeatedly regrouped, waving outlawed

party flags and chanting: "We want democracy."

At least four people were killed when other protesters broke out in towns and villages.

Witnesses said two students and a policeman died in a gun-battle in Chitwan, a village 150 km southwest of Kathmandu, after activists burnt a government forestry vehicle which police were using.

State-run Radio Nepal, quoting Interior Ministry sources, said a policeman was killed when demonstrators hurled a large stone at his head in Hetauda, 100 km south of Kathmandu. The radio said police had been injured by stoneth-

rowers in two other towns and listed another 10 localities where it said the situation was now under control - implying there had been protests earlier.

The government admits detaining over 500 people before Sunday's launch of the campaign for open political activity and there has been growing concern about human rights among foreign aid donors to Nepal, one of the world's 10 poorest countries.

Absolute monarch King Birendra, widely regarded as a deity in Nepal, launched Democracy Day with a radio address defending the party-less system of elected councils from village to national level.

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OVERSEAS NEWS

Victorious Japanese leaders will find no easy answers

Poll results will bring little assurance for the Liberal Democrats that it is back to business as usual, Ian Rodger reports

At first glance, the results of yesterday's substantial election victory for the ruling Liberal Democratic Party would suggest that it is back to business as usual in Japan.

The LDP now has a clear majority in the lower house, its leaders who went into parliament because of involvement in the Recruit bribery scandal last year, can return to occupy positions of power, and the opposition parties can no longer claim with the same authority they had last week that they represent the public's true feelings.

In some ways, the series of mishaps and disasters that befell the LDP in the past two years and which largely paralysed the political process in the country was aberrant.

Everyone knew that the introduction of a 3 per cent consumption tax was going to be unpopular with housewives and the government's agreement, under pressure from the US and other foreign governments, to open some farm products and other markets, was bound to alienate important segments of the LDP's constituency.

However, it was widely thought that the party could weather these problems when



Premier Toshiki Kaifu (left) awaits results; Socialist Party leader Takako Doi meets the press

it had to face the electorate, not least because of the ineptitude of the opposition parties. It was the Recruit scandal, which revealed the extent to which some LDP leaders were prepared to stoop to raise money, which provided that extra bit of anger that made voters turn against the LDP in huge numbers.

Then the disclosures that Mr Sosuke Uno, the prime minister brought in last June to provide a clean image for the party, had had an affair with a

part-time geisha roused a hitler-to passive feminist vote to action. But it would probably be wrong to see the events of the past year as an unfortunate coincidence of events causing a passing protest trend that has now been softened or even forgotten.

So much has happened in and to Japan in the past two years while the politicians have been mesmerised by their own problems that it is difficult to imagine the country and the LDP going back to

business as usual. Perhaps the main change is in the world's awareness of the size and importance of Japan. In the past, LDP governments were adroit at fending off demands from foreign countries that Japan open its markets or participate more in international financial institutions. The most notorious technique was to promise to make changes but then do nothing, and hope that the foreigner would lose interest or weary of pursuing his claim.

Today, when Japanese institutions play key roles in world financial and property markets and Japanese industrial companies continue to expand around the world, the foreign demanders are much less likely to lose interest, and the Japanese government finds it much more difficult to hide.

That trend, in fact, has been one of the roots of the LDP's troubles in the past two years. If the US had not been insistent that the Japanese government open its farm product markets, the LDP would not have lost the farm vote.

Foreign pressure has succeeded in the past year or so in defence to the political instability that emerged in Japan.

But in the wake of yesterday's election result, it can be expected to intensify immediately. US trade representatives are arriving in Tokyo this week to carry on negotiations over Japan's so-called structural impediments to trade. During those discussions, the Japanese government will be asked to remove legislative restrictions on the establishment of supermarkets and large chain stores, to root out bid-rigging in the construction industry, to enforce anti-monopoly legislation more effectively, and to open more pro-

Japanese House of Representatives Election			
Party	Yesterday's Result	Seats at Disposal	Seats in 1986
Liberal Democratic Party	240 (6)	255	300
Japan Socialist Party	114 (6)	83	85
Komeito	31 (0)	54	66
JCP	13 (2)	26	26
DSP	12 (0)	26	26
USDP	3 (0)	4	4
Progressive Party	0 (0)	1	1
Other minor parties	6 (0)	0	6
Independents	19 (1)	7	9
Vacancies	17	17	17
Total	431 (7)	512	512

Results as of 11:00 local time Monday. Counting is continuing. 10 seats began at 10:00 local time. Figures in brackets indicate number of votes. Non-voting Liberal Club won six seats in 1986, counted as among other minor parties. Source: NHK

tectionist markets. Later in the year, the focus will turn to the eurozone rice market. If the US and the European Commission agree to remove their barriers to farm trade, they will demand that Japan too make a sacrifice to show its commitment to a free multilateral trade system. In each case, the LDP will again face strong internal tensions, as parliamentarians fear for the loss of their supporters, and there will be no escape and no easy answers. That is why Mr Ichiro Ozawa, the tough LDP secretary general, warned last night that "the decade of the 1990s is going to be a harsh period for Japan in the international community".

It could also prove to be a tough period for the LDP itself. Until now, the party has managed to be nearly all things to all people, as its 35-year tenure in office shows. But the country's great size and wealth make that increasingly difficult. Conflicting interests, not just between foreigners and Japanese, but between different groups of Japanese, are becoming more pronounced, and there is less willingness to give ground for the collective good than in the past. It is impossible to predict how these forces will shape Japan's politics, but things are unlikely to be business as usual.

Tokyo seeks to flesh out its skeletal links with Brussels

David Buchan reports on how relations between the Community and Japan are faring in advance of the single market

WITH yesterday's general election behind them, Japan's politicians can return to the equally serious business of improving their country's fractious relations with its main trading partners.

The balance of current opinion - Japanese and non-Japanese - is that Tokyo's relations with the EC are likely to get better, and stay better, than its ties with the US. There is, thus, some modest hope of strengthening the weakest side of the US-EC-Japanese triangle that dominates world trade. Fleshing out their skeletal political relationship is an important aim of EC and Japanese diplomats this year.

The prospect of more harmony, or less acrimony, may seem improbable at a time when the 12 member states are still racked with indecision about how to treat imported Japanese cars after 1992, and Mr Jacques Delors, Commission president, regularly rebukes Japan for its own closed market. Nor is a comparison with relations between Tokyo and Washington all that

encouraging: the forecast is for that long-standing partnership to take a further nosedive when the US starts demanding fresh action from Tokyo to boost imports after yesterday's election. But, looking at the situation, consider the following:

● Japan's trade surplus with the EC fell from \$22.8bn (£13.6bn) in 1988 to \$18.8bn last year, due to higher EC exports. The improvement was narrowly based mainly on West German cars, pharmaceuticals, chemicals, Italian fashion textiles and Scotch whisky, but it was real none the less. By contrast, Japan's trade surplus with the US fell only marginally to \$45bn last year.

● Japanese companies, their interest whetted by the EC's plan to ring its single market with new trade arrangements with EFTA and East European countries, have sharply stepped up their investment in the EC. Japanese direct investment, already \$30bn by spring 1989, jumped by another \$2.5bn in April-September last year. The Keidanren, the Japanese employers' federation, was surprised to learn from a survey

that members were generally favourable towards the 1992 programme. "We had thought they had more apprehensions than positive reactions," says Mr Hajime Ohta, chief of the federation's international economic department.

● This investment surge has prompted some calls in the EC for a minimum of local European content in what the Japanese make inside the Community. But most Japanese government officials and company executives appear to make a distinction between what Brussels and Washington are demanding of them. They characterise the former's actions or demands on dumping, local content or car imports as inconvenient, even illegal, under Gatt (to which Tokyo has formally committed itself about the EC's "screw-driver" rule against circumvention of anti-dumping action), but ultimately susceptible to bargaining. This is because they relate to exports - the way Japan does business abroad.

By contrast, many US demands that Tokyo remove

the "structural impediments" to selling to Japan - an end to tariff purchasing habits among Japanese companies, pruning the retail chain that bumps up costs to their domestic consumers, and changes in land pricing - are deemed far more sensitive, because they relate to how the Japanese do business at home. No one likes being prodded into investing in a certain region. Ricoh, the Japanese photocopier, is still sore over the Commission's attempt to extend a 20 per cent dumping duty to copiers from its California plant which Brussels claimed were basically of Japanese, not US origin, and thus liable to the duty. The move became moot last year when Ricoh (California) stopped shipping to Europe because of a change in model. But no sooner had that happened than EC scrutiny fell on Ricoh (France): only this month did the Commission pronounce itself satisfied Ricoh was not using the high-a portion of Japanese-made parts at its Alsace plant.

Mr Hiroshi Hamada, Ricoh's president, is a strong supporter

of his government's call for a new Gatt ruling on rules of origin, which would make it flexible to allow outside companies to start up new models as well as new factories. Ricoh is confident that with a newly expanded French operation and a UK plant, it can stick to whatever rules of origin are decided by the EC. Another EC leader, Mr NSK, the Japanese ball-bearing maker which has just bought a chunk of local production in the form of the UK NSK started making bearings in Britain in 1976, but within a year or so was hit by an EC dumping investigation on its exports from Japan to the Community. The Commission dumping finding was overturned in the EC court, but the company still stepped up its investment in Britain. "From Brussels' viewpoint, the dumping action was therefore rather successful, though frustrating for us," says Mr Sadao Hiyama, senior managing director of NSK, which still imports about 70 per cent of the steel it makes for bearings at its Newcastle plant.

The Ricohs and NSKs seem almost grateful, in retrospect, for having been semi-forced to invest in the EC long before it was made fashionable by 1992. The Japanese car companies' opinions about the EC differ according to whether they are late or early comers to the EC, says Mr Ohta. Those early to get into the "fortress", by building plants inside the EC, are obviously less concerned. Japanese protectionists might pull up the drawbridge that those companies which still rely on direct exports from Japan.

It is precisely because the Japanese see EC dumping and rules of origin moves as a direct strategy to curtail direct investment into Europe - a charge rejected by Brussels - that they rub their eyes in disbelief when they read French calls which would restrict the sale of locally-made products as well as direct exports from Japan.

"I can't think of the EC going along with the French position, which is so far-fetched," comments Mr Yoshiaki Yasuda, chief spokesman of Nissan. With its British and Spanish plants, Nissan plans to boost European production from 160,000 cars last year (a quarter of total sales in Europe) to 360,000 cars in 1992 (an estimated half total sales). Mr Yasuda says Nissan is nearing 30 per cent local content in its European production, is setting up a research and development centre north of London, and plans to have local designers fashion future models. "Would the French Government care to apply the same criteria to IBM of France?" he asks. Recent announcements of projects by Suzuki and Daihatsu in Hungary and Poland, respectively, give the impression of a sudden Japanese invasion of eastern Europe. It is true that Japanese businessmen are following in the wake of Prime Minister Toshiki Kaifu, who visited Warsaw and Budapest last month; also true that Tokyo's Ministry of International Trade and Industry

(MITI) is creating a pan-European division. It is true, too, that many EC carmakers fear their Japanese rivals using eastern Europe as a springboard into the EC market.

But the Suzuki and Daihatsu deals have been years in discussion, and most Japanese companies are sceptical about prospects in the East, not least the lack of convertible currency there. Any attempt to export Japanese cars assembled in East Europe to the EC will run into a serious dilemma. MITI officials admit. Either they have too much Japanese content to make them politically acceptable in the EC market, or too little to make them commercially acceptable there. It is not a dilemma Brussels has any interest in helping the Japanese resolve; but one answer, says Mr Kaishiro Fujiwara of the Keidanren, could be regional specialisation between Poland, Czechoslovakia and Hungary which might provide Japanese companies with components both high and high-quality. Eastern Europe, therefore, would become another area of EC-Japanese trade friction.

But there are more direct determinants of future links between Tokyo and Brussels. The first of course, is bilateral trade. Increased Japanese investment overseas is unlikely to boost exports by Japanese subsidiaries in the EC back to Japan (because of distance), in the way that Japanese companies are using the nearer markets of Asia, even America, for off-shore production. Second, the side-effect of any serious US-Japanese trade row might be trade diversion to Europe. Finally, there is a tendency in Tokyo to dismiss Mr Delors' complaints as purely French. Equally, there remains incomprehension of the Commission and its ambitions, never greater than at present. "We didn't realise Delors' strong feeling that we should talk to the Commission, rather than the member states," said a Japanese participant in last month's fractious Kaifu-Delors talks.

Sharon to fight for Likud leadership

By Eric Silver in Jerusalem

THE rebellious Israeli Minister, Mr Ariel Sharon, said last night he would run for leadership of the right-wing Likud before the next general election, due by the end of 1992.

He was speaking after formally submitting his resignation as Minister of Industry and Trade to the Cabinet. The resignation, originally announced at a raucous meeting of the Likud central committee a week ago, comes into effect tomorrow.

In a letter to Mr Yitzhak Shamir, the Prime Minister and Likud leader, Mr Sharon said the Government's peace initiative put Israel on the road to establishing a Palestinian state. He accused Mr Shamir of removing issues vital for Israel's security and existence from the Cabinet. "Matters of life and death are decided by one or two men," he said.

The former general said he planned a campaign to undermine the peace initiative agreed by both parties in the coalition government.

"I am going to start a long march from town to town, from place to place, in Israel and abroad," he said. "I am going to try to convince Mr Sharon said the two key issues on which he would fight his former colleagues were those of Jerusalem and 'the security of Jewish lives'."

He contended that Jerusalem was the heart of the Jewish people. "United Jerusalem under Israeli sovereignty is the capital of Israel. We will never negotiate Jerusalem," he said. Mr Sharon said Israel's first priority was to end "the terrorism called the Intifada". Israel must retain control of security in the occupied territories for ever.

Aoun forced to take softer line

CHRISTIAN militiamen checked corpses and suspect shells in a captured airstrike yesterday as the Lebanese leader, Michel Aoun, called for talks and Beirut's civilians savoured a rare calm. Reuters reports from Beirut.

The 12th ceasefire in 15 days of inter-Christian war held through the day. 200 Christians went to church to pray for the casualties - more than 610 killed and 2,300 wounded.

In a radio statement, Gen Aoun said: "I hope the irregular situation in the liberated area will be solved through dialogue... I am working for such a solution." This is the first time he has taken the initiative for talks since his troops and those of Lebanese Forces militia leader Samir Gengeh clashed on January 31 in a battle for control of Beirut's Christian enclave.

Until Saturday night, Gen Aoun's army slowly asserted its mastery in saturation shelling and rocket attacks on selected strongholds followed by ground assault. But a 10-hour offensive by elite units of the Lebanese Forces gave the militia its first victory.

In a radio statement, Gen Aoun said as ceasefire took hold and moved some 15km away. Gen Aoun's conciliatory tone, which saved the command, came after Syria offered to intervene to end the fighting and oust Gen Aoun.



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Aktiengesellschaft
Frankfurt am Main

Rights offer

Pursuant to the authority granted at the Ordinary General Meeting on 11th May, 1988 the Board of Managing Directors has resolved, with the consent of the Supervisory Board, to increase the share capital by DM 138,000,000 to DM 2,128,224,050 through the issue of 2,760,000 new shares of DM 50 each at an issue price of DM 600 per DM 50 share.

The new shares will rank for dividend from 1st January, 1990 and will not be entitled to the dividend payable on 17th May, 1990 in respect of the year ended 31st December, 1989.

The new shares have been underwritten by banks with the obligation to offer them to:

- our shareholders in the ratio of 1 for 17
- the holders of warrants from the 8 1/4% U.S. Dollar Bonds and 3 1/4% Deutsche Mark Bonds with Warrants of 1983/1991, issued by Deutsche Bank Luxembourg S.A. (formerly Deutsche Bank Compagnie Financière Luxembourg S.A.) in the ratio of 1 for 17
- the holders of 4% Convertible Bonds of 1984 of our bank in the ratio (nominal amounts) of 1 for 85

- the holders of warrants from the 8 1/4% Deutsche Mark Bonds with Warrants of 1984/1991, 4 1/4% Swiss franc Bonds with Warrants of 1987/1997, issued by Deutsche Bank Finance N.V., Curaçao, and assumed by Deutsche Finance (Netherlands) B.V., Amsterdam in the ratio of 1 for 17

The increase in capital having been entered in the Commercial Register, we invite our shareholders, the holders of the Warrants, and the holders of the Convertible Bonds to exercise their subscription rights against presentation of dividend coupon No. 52 from the old shares, or Receipt to Bearer D attached to the Warrants from the Bonds with Warrants of 1983/1991 and to the Convertible Bonds of 1984, or Receipt to Bearer C attached to the Warrants from the Bonds with Warrants of 1986/1996 or Receipt to Bearer B attached to the Warrants from the Bonds with Warrants of 1987/1997 and 1988/1997, at one of the subscription agents below during normal banking hours from 15th February to 5th March, 1990, inclusive, to avoid exclusion.

Subscription agents in the United Kingdom:

Deutsche Bank AG,
London Branch,
6, Bishopsgate,
London EC2P 2AT.

Midland Bank plc,
Ground Floor,
Suffolk House,
5, Laurence Pountney Hill,
London EC4R 0SJ.

For every 17 old shares of DM 50 per value each and for every 17 Warrants from the aforementioned Bonds with Warrants and for Convertible Bonds of 1984 in the nominal amount of DM 4,250, one new share of DM 50 per value may be purchased at the price of DM 600 upon presentation of the coupons or Receipts to Bearer mentioned above. The date for payment of the subscription price is 5th March, 1990.

The subscription rights from shares, Warrants and Convertible Bonds will be traded and officially listed on all German stock exchanges, and may be dealt in on The International Stock Exchange under rule 535-4, from 19th February to 1st March, 1990, inclusive. A combination of the different subscription rights may be used. The subscription agents are prepared to arrange for the purchase and sale of subscription rights.

The new shares (Securities Index No. 804012) are evidenced by a global certificate deposited with Deutscher Kassenverein AG. Subscribers will be credited in a joint share account for their new shares. No claims for the delivery of individual share certificates may be made until 17th May, 1990, when the new shares will enjoy the same dividend entitlement as the old shares. From 17th May, 1990 onwards, printed share certificates with coupons Nos. 54 to 70 and a renewal coupon will be available upon request.

Application has been made for the new shares to be admitted to listing and official quotation on all German stock exchanges. The shares will be introduced to the stock exchanges in Amsterdam, Antwerp, Basle, Brussels, Geneva, Luxembourg, Paris, Tokyo, Vienna and Zurich in accordance with the regulations of each exchange. Application has been made to the Council of The International Stock Exchange for the new shares to be admitted to the Official List: it is expected that such listing will become effective, and dealings in the new shares will begin, on 17th May, 1990.

Shareholders are strongly advised to consult their stockbroker, solicitor, accountant or other professional adviser immediately regarding the rights offer.

Frankfurt am Main, 19th February, 1990
The Board of Managing Directors

Foreign companies 'may be underpaying US tax'

By Peter Riddell, US Editor, in Washington

US TAX authorities are examining whether many foreign-owned companies in the US more than doubled in the 1980s, total taxes paid hardly changed. Concern is focused on distributors in the US of Japanese manufactured goods.

The Internal Revenue Service has in the past been frustrated in attempts to audit the subsidiaries' returns as vital records have been kept at headquarters overseas. However, last year's Budget law gives the Internal Revenue Service greater powers to assess taxes on foreign-owned companies if they fail to comply promptly with demands for any records or testimony.

In this case the US authorities can levy taxes solely on the basis of information available to the Internal Revenue Service without regard to data that might later be supplied by the taxpayer. Fines of up to \$10,000 a month can be levied.

Foreign governments strongly objected to these new provisions as a further example of US assertion of extra-territorial rights and an intrusion into confidential business affairs.

HK busiest container port

HONG KONG kept its place as the world's busiest container port last year, with more than 4.4m teu (twenty ft equivalent units) handled, a rise of 10 per cent over the previous year, Michael Murray reports from Hong Kong.

This growth rate was slightly less than expected, and Marine Department officials forecast that this year Hong Kong could be edged out of first place by Singapore in container throughput.

Total cargo grew by 5.1 per cent to 85m tonnes in 1989, while the number of ocean-going vessels arriving in Hong Kong rose 11.3 per cent to 19,000. An eighth terminal at the colony's main Kwai Chung container port is planned to open its first berth in 1993. Singapore overtook Rotterdam for second place in 1988. Its throughput makes it likely it will beat Hong Kong this year.

WORLD ECONOMIC INDICATORS

INDUSTRIAL PRODUCTION (1985 = 100)

	Dec '89	Nov '89	Oct '89	Dec '88	year
US	115.4	115.0	114.8	113.5	+1.7
Japan	120.8	120.8	119.7	117.1	+3.2
UK	111.2	111.9	111.2	109.5	+1.6
W Germany	115.2	112.7	112.2	108.3	+5.4
France	113.8	112.6	111.2	110.1	+3.4
Italy	119.2	119.2	119.5	118.3	+2.0

Source: European Union

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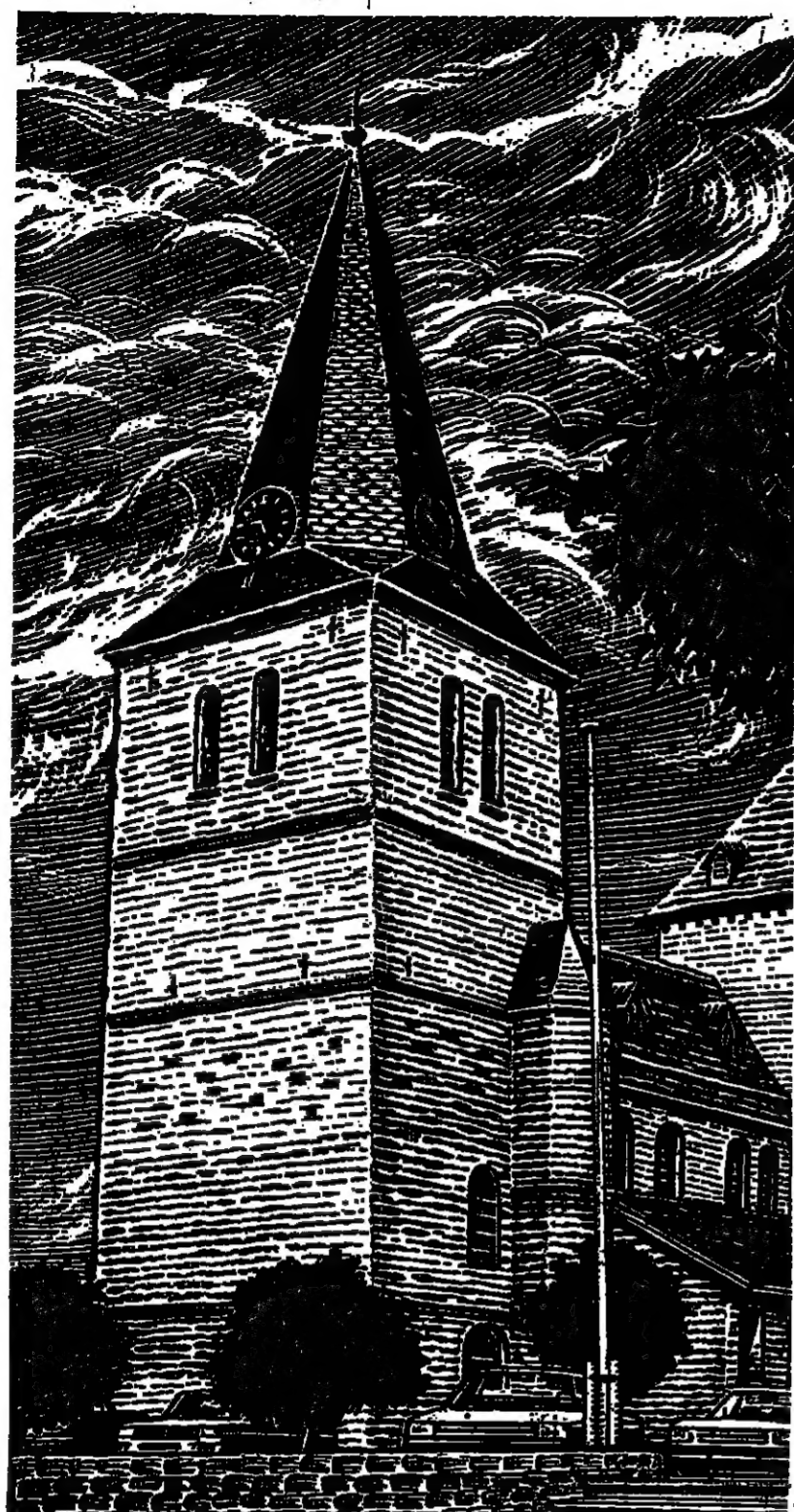
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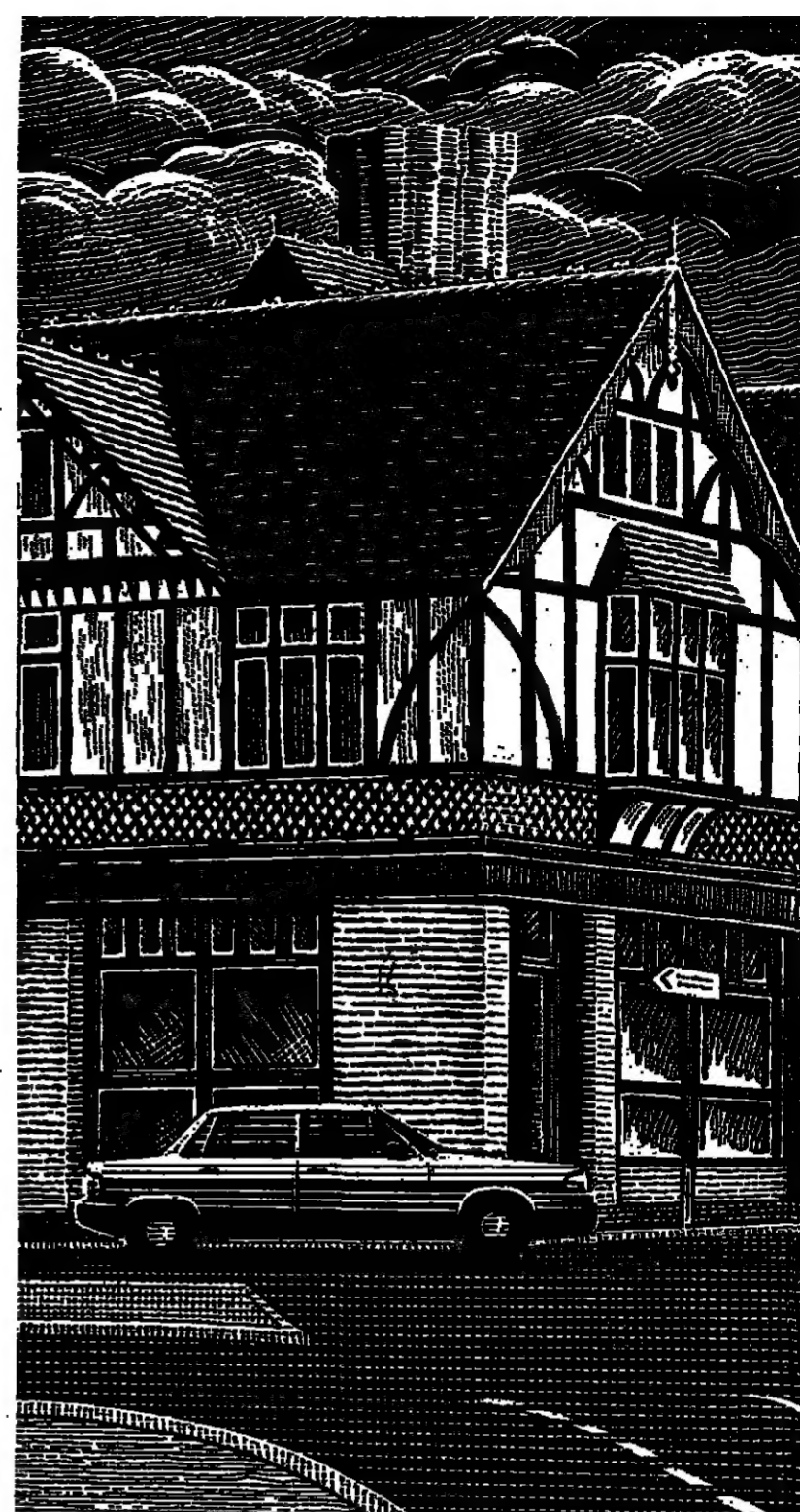
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UK NEWS

Senior civil servants to benefit from pay points

By Michael Smith, Labour Correspondent

HIGH ranking civil servants in the United Kingdom could see their salaries rise by up to 24 per cent this year following the introduction of a scheme aimed at halting a brain drain to the private sector.

The "personal pay points" scheme could mean rises for a small number of employees in civil service Grades 4-7 of more than £3,000. These will be in addition to annual pay deal increases which took the salaries of the highest earners in the group to more than £40,000.

Disclosure of the scheme is likely to anger the relatively lowly paid ambulance workers who are staging industrial action over a pay offer which would increase wages by 9 per cent over 18 months. Civil Service unions are also concerned about the scheme.

They believe it will lower morale, and may increase resignations, among the vast majority of Grade 4-7 civil servants who do not receive personal pay points. They are also worried about the increased patronage it affords managers who make decisions on pay.

The Treasury said yesterday that personal pay points were distinct from performance pay and would be available to people whose skills were particularly marketable in the private



Elizabeth Symons: 'scheme was not thought through'

sector. The system could also help departments persuade personnel to do certain jobs.

The Treasury said payments would only be made in exceptional circumstances, to a small number of staff and at the discretion of departments.

Costs would come from existing departmental budgets and would have an infinitesimal effect on the overall pay bill.

Last autumn, the Government agreed a deal with the FEA, IPMS and NUCCPS civil service unions which lifted the pay bill of Grades 5-7 personnel by 8.7 per cent in a full year. The flexibility of the agreement meant that most civil servants in the south-east won between 11.3 and 12.3 per cent and another 4 per cent was available for exceptionally good performance.

The personal pay system, already in operation for higher paid Grades 2 and 3 allows civil servants in most cases to rise up to 3 points, each worth about 4 per cent.

However a special pay award will reduce the amount of performance pay available in future years.

Unions are seeking clarification on the criteria for making personal pay awards and on how they can be withdrawn.

Ms Elizabeth Symons, FDA general secretary, said: "This scheme has not been properly thought through. The civil service is losing very capable staff to better paid jobs outside."

"Of course we want to see more money in our members' pockets - but I don't see this scheme in its current form being of much real use to either members or the departments."

Injunction blocks rebel ambulance service

By Lisa Wood

AMBULANCE staff in South Glamorgan, Wales, were prevented from starting up their own accident and emergency service to run from today when an injunction was granted in the High Court yesterday.

South Glamorgan Health Authority was granted the injunction, stopping the ambulance staff using service ambulances, until tomorrow. Outside the court, Mr James Watt, a solicitor for the Welsh Office which applied for the injunction on behalf of the health authority, said summonses had been issued and both parties would be able to bring the matter to court tomorrow.

South Wales police are now expected to take a part in the running of the 999 service. The county's ambulance staff have refused to accept instructions from controllers and planned to run their own service.

Local union officials turned down an invitation to defer today's action as well as to be represented in court yesterday. Mr Andy Dobbins, a NUPE branch official said: "It looks as if we will be locked out from work from Monday."

Skills shortage to force up wages

By Ian Hamilton Fazey

EXPERTISE shortages are going to force up pay and distort wage structures in Britain in the next three years, however much the Government urges restraint on employers, according to a survey of private sector companies published today.

Most employers expect to need more managers and technicians, but fewer supervisors, clerks, and unskilled manual workers.

The main shortages will be of electricians and fitters, finance and accounting staff, information technology specialists and, in some areas, truck drivers.

The survey, by Collinson Grant, a Manchester-based

management consultancy, was of 55 businesses employing 45,000 people. Their industries were business services, chemicals, engineering, metal manufacture, printing and publishing, retail distribution, sanitary services and structural clay products.

Most companies will attempt to cope with internal training and development. Jobs will also be redesigned and pay increased for some of them.

Some companies are reviewing pay structures completely so as to offer more competitive rates in important areas.

However, there was little enthusiasm for creches or child-minding facilities to attract women workers with

young families. Instead, a majority of companies intend to re-employ women who have raised a family and make more use of part-time working and flexible working hours to accommodate them.

Although 16 companies said they would recruit "key skills" workers from anywhere in the UK or other EC member states, most will use recruitment as the main option for clerks and unskilled manual workers.

However, only experienced people need apply - school leavers were not viewed as a likely source of labour in these areas - and poaching seems to be already common.

The companies were split on the merits of graduates, with

half planning to recruit substantial numbers and half intending to take none - or no more than one per year - to 1993.

Only one-third regarded shortage of foreign language skills as much to worry about. There was no pattern as to location, but Mr David Jones, the author of the report, says: "Perhaps the cynic's view prevails that English will become the single European market and there is no urgency for learning another."

Nearly all companies said they had no trouble in hanging on to managers and supervisors but struggled to keep technicians and craftspeople.

Appeal tests employers' rights on training

By Diane Summers

WHETHER or not an employer can claim back the costs of training staff who then leave their jobs will be decided in the High Court next week.

Mr Philip Hubble, a computer worker, was ordered by the Court three years ago to repay £4,500 to the US company Electronic Data Systems. He subsequently won the right to appeal and the case opens in London next Monday.

Mr Hubble joined EDS, the computing subsidiary of General Motors, in December 1984. The next year he signed a "promissory note" agreeing to pay £4,500 if he left the company within two years of receiving

training. He did leave before the two years were up, but refused to pay the sum demanded by EDS.

The Court originally upheld the company's view that the money was only a fraction of the cost of the training and that the promissory note was a legitimate compensatory provision. An earlier case was cited in which a Scottish local authority reclaimed from an employee part of the money it had spent on training.

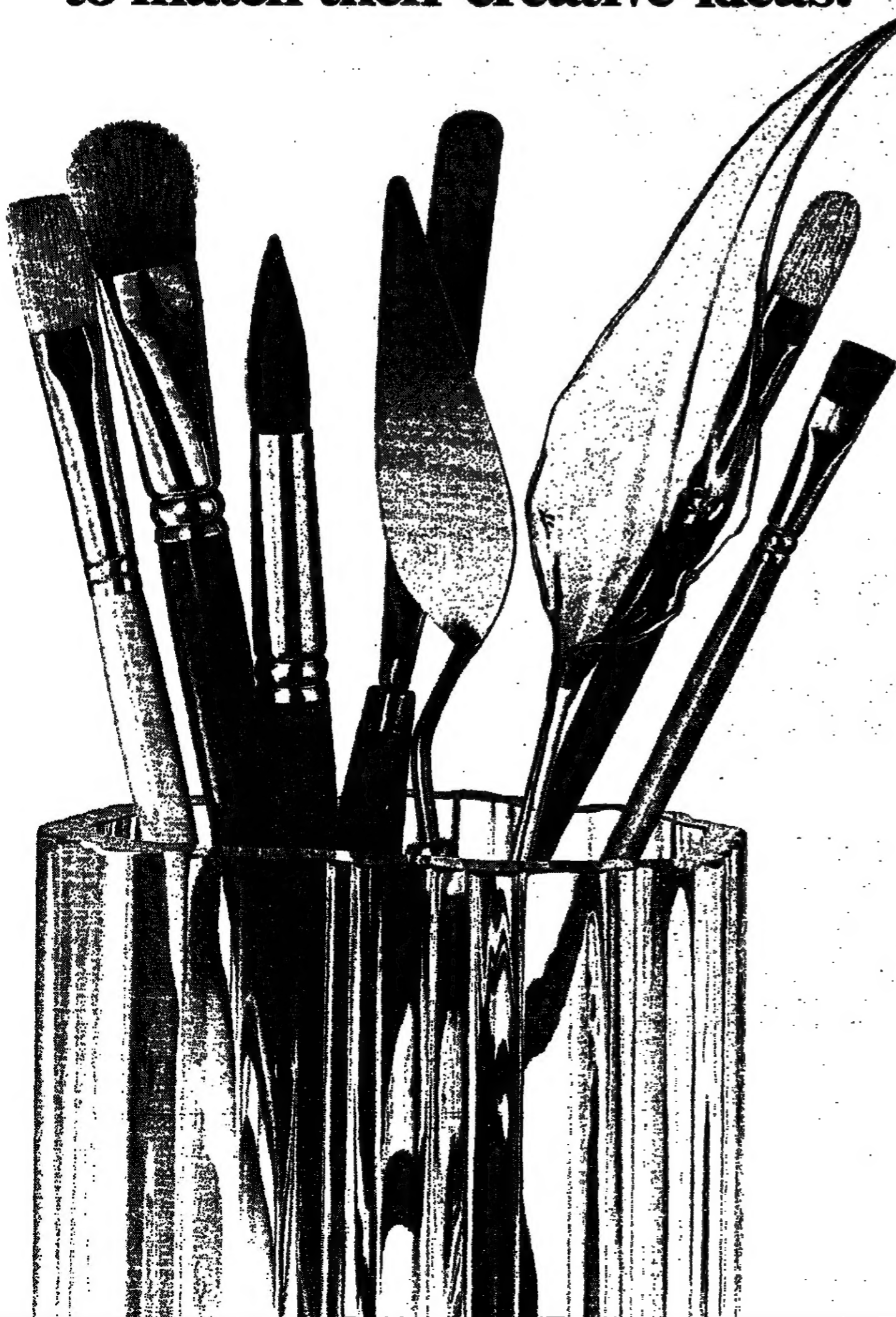
Mr Hubble, with backing from Tass, the former manufacturing union, won the right to appeal. It was argued that EDS' repayment scheme was legally unenforceable.

The Court of Appeal decided. The general union MFEP, Tass' successor, has taken on the backing of the case.

The outcome will interest other companies, particularly those in computing, which are attempting to reconcile expensive training programmes with high staff turnover.

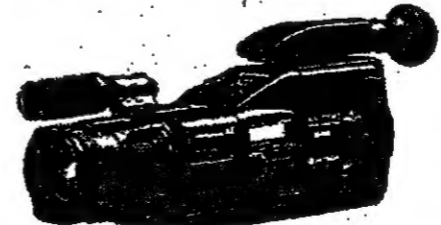
EDS justifies its policy of trying to recoup costs by citing the shortage of skilled technical staff in Europe and the need to protect itself from having employees head-hunted in a highly competitive industry. The practice is less common in the UK than it is in the US.

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Birds Eye factory staff vote to continue strike

By Our Labour Staff

WORKERS at the Lowestoft plant of Birds Eye Wall's in Suffolk yesterday agreed at a 800-strong meeting to continue strike action over imposed changes in working practices.

The dispute, which started on Tuesday, is the second to hit the large food processing company, a subsidiary of Unilever, the Anglo-Dutch food group, in 12 months. In March, Birds Eye Wall's announced the closure of its plant in Kirby, Merseyside, because workers refused to accept Workstyle, a system of flexible working practices.

The Lowestoft factory, which processes potato products, beefburgers and green vegetables, was the first to accept the

new practices. However, two issues have remained unresolved between the company and the Transport and General Workers Union, which represents the majority of the 1,200 workers at Lowestoft: the number of redundancies at the plant and control over daily staffing.

Mr John Lineker, general manager at the factory, said if the workforce wanted talks he would be pleased to meet them.

He said the dispute had not disrupted sales because the factory had healthy stocks.

TGWU representatives this week will be visiting Birds Eye's other three factories at Hull, Gloucester and Grimsby, to seek support.

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NOTICE OF ADJOURNED EXTRAORDINARY GENERAL MEETING
The Extraordinary General Meeting of Shareholders of Mercury Offshore Sterling Trust held on 15th February, 1990 having been unable to consider and vote on the resolutions pertaining to the amendment of the Company's Articles of Association, since the quorum imposed for such resolutions was not reached, an Adjourned Extraordinary General Meeting of Shareholders of Mercury Offshore Sterling Trust will be held at its registered office at 10, boulevard Roosevelt, Luxembourg, at 11.00 a.m. on 22nd March, 1990 for the purposes of considering and voting upon the following matters:

Agenda of the Adjourned Extraordinary General Meeting of Shareholders

6. To resolve that paragraph (3) of Article 4 of the Articles of Association be amended to read as follows:

"The Company may invest in transferable securities admitted to official listing on stock exchanges, or dealt in on regulated markets which operate regularly and are recognised and open to the public, in any member country of the European Community ("Member State"), or in any other country in Europe, Asia, Oceania, the American continents or Africa and may, subject to the Law, invest in recently issued transferable securities the terms of issue of which provide that application be made for admission to official listing on any such stock exchange, or to any such regulated market."

with such modifications as may be required by any regulatory or listing authority.

7. To resolve that Articles 1, 8, 13, 15, 16 and 17 be amended, such amendments involving principally the changes described in the Extraordinary Notice sent to Registered Shareholders with the Notice of the Extraordinary Meeting, subject to such modifications as may be required by any competent regulatory or listing authority.

Voting
Resolutions on the Agenda of the Meeting of Shareholders may be passed by a majority of 75 per cent. of the votes cast thereon at the Meeting, with no requirement as to quorum.

Voting Arrangements
In order to vote at the Meeting:

- the holders of bearer Shares must deposit their Shares not later than 15th March, 1990 either at the registered office of the Company, or with any bank or financial institution acceptable to the Company, and the relative Deposit Receipts (which may be obtained from the registered office of the Company) must be forwarded to the registered office of the Company to arrive not later than 15th March, 1990. The Shares so deposited will remain blocked until the day after the Meeting or any adjournment thereof;
- the holders of registered Shares need not deposit their certificates but can be present in person or represented by a duly appointed proxy;
- Shareholders who cannot attend the Meeting in person are limited to send a duly completed and signed proxy form to the registered office of the Company to arrive not later than 14th March, 1990. Proxy forms were sent to registered Shareholders with the notice for the original Meeting and can be obtained from the registered office. A person appointed a proxy need not be a holder of Shares in the Company; lodging of a proxy form will not convert a Shareholder from attending the Meeting if he subsequently decides to do so.

The proxy forms received by the Company for the Extraordinary General Meeting of Shareholders convened for 15th February, 1990 need not be renewed and will be valid for the Extraordinary General Meeting of Shareholders convened for 22nd March, 1990.

Information for Shareholders
Shareholders are advised that a draft (which is subject to modification, in whole or in part, by the Board of Directors) of the proposed amendments to the Articles of Association of the Company and the proposed amendments to the Articles of Association of the Company are available for inspection at the registered office of the Company and at the following places:

S.G. Worsburg & Co. Ltd.,
Paying Agents,
2, Finsbury Avenue,
London,
EC2M 2PA,
England.

A draft of the Articles of Association as amended will be available for inspection at the Meeting. None of the directors has a service contract with the Company.

Recommendation
In the opinion of the Directors the amendments to the Articles of Association proposed in Resolutions Numbers 6 and 7 are in the interests of the Company and its Shareholders. Accordingly, the Directors recommend that all Shareholders vote in favour of the Resolutions set out above.

19th February, 1990 The Board of Directors



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UK NEWS

Patten seeks £2bn to lessen poll tax damage

By Philip Stephens, Political Editor

MR Christopher Patten, the Environment Secretary, is to press the Treasury for a substantial increase in resources for local authorities next year in an attempt to lessen the damage done to the Government by the community charge.

His move, which Whitehall insiders say has already been discussed informally with Mr John Major, the Chancellor, is expected to win a sympathetic reception.

Figures have not been discussed but one Whitehall official said that Mr Patten could be looking for up to £2bn extra when the Treasury fixes its local authority Revenue Support Grant in July.

Girobank in £6m bid for cash sector

By Ian Hamilton Fazey

GIROBANK has spent \$5m in an attempt to capture the bulk of the cash payments sector of the poll tax market by offering a cheap handling service to local authorities. The market is likely to be worth up to £200m a year in revenue.

The bank has set up a unit and taken on 107 staff so that the estimated third of charge-payers who will prefer to make payments in cash can pay the tax in weekly, fortnightly or monthly cash instalments at any post office. Payment slips will be processed in the bank's headquarters at Bootle, Merseyside, and magnetic tapes recording them will be given to subscribing local authorities and their bankers.

Girobank, which is in the final stages of being taken over by the Alliance and Leicester Building Society, says it has signed contracts with nearly 150 out of 401 English and Welsh local authorities so far.

The bank already runs a cash payments system for the poll tax in Scotland, where it is used by a million people. The tax replaces domestic rates in England and Wales on April 1. The handling charge to local authorities will be 43p per transaction, reduced to 38.5p for councils which do some of their own keyboarding but use Girobank for its paper handling systems.

Move on social security fraud

SOCIAL SECURITY fraud investigators saved the taxpayer £53m last year, the Employment Department announced yesterday. It said 330,000 investigations led to 74,400 people withdrawing their claims to benefit.

Mr Michael Howard, the Employment Secretary, said the drive against benefit fraud had been intensified in June 1987, since when savings to the taxpayer had amounted to £145.12m.

He said nine employers had been prosecuted for encouraging workers to claim benefit fraudulently in order to pay the workers lower wages.

More broadly, some backbench Conservative MPs plan to renew their campaign for the Government to take direct control of large areas of expenditure, particularly on education, at present administered by local authorities. That would not be possible, however, until after the next general election.

Ministers acknowledge there is growing concern that, unless extra funds are made available to the authorities, the poll tax could undermine the Government's campaign at the general election.

They already expect the combination of rising mortgage rates and the introduction of the tax to give Labour substantial gains in the May local elections and fear it could allow the opposition to overturn a 14,500 Conservative majority in next month's by-election in Mid-Staffordshire.

It is now recognised in Whitehall that the average bill when the tax is introduced in England and Wales in April may turn out to be 26 per cent higher than the £278 predicted by the Environment Department.

That will exacerbate the Government's difficulties in holding down inflation. Original forecasts that the poll tax would add 0.5 percentage points to the retail price index are now viewed as an underestimate. The actual figure may turn out to be close to 0.75 percentage points.

Ministers, meanwhile, are bracing themselves for another round of mortgage rate increases this week, with many of the building societies following the lead of the Abbey National and setting a rate of more than 15 per cent.

The general expectation is that the retail prices index, which remained at 7.7 per cent in January, will be showing increases far above 8 per cent by the early summer.

The political damage inflicted by the poll tax has led to scrutiny within the Cabinet, with Mr Nicholas Ridley, the former Environment Secretary, being blamed by a number of ministers for "misleading" its introduction.

Mr Ridley, now Trade and Industry Secretary, negotiated a deal with the Treasury last year which included an effective freeze in real terms in the Environment Department's support for local authorities.

Some of his colleagues blame that agreement for the fact that scores of Conservative-controlled councils are planning to set their poll tax at levels much higher than those recommended by the Government.

Mr Patten is facing pressure to "tear" the spending plans of authorities setting the highest charges but it is recognised this might prove difficult.

Ms Sharon Coghill, 19, a student from Aberdeen, was diagnosed as suffering from acute myeloid leukaemia 10 years ago. She was born and brought up near Tunso, which is close to the plant, and claims that radiation from it could be to blame.

Ms Coghill has been granted legal aid to fight the case, which could set a precedent for other claims by families who believe that childhood leukaemia could be linked to living close to power stations.

A report in June 1988 by the Committee on the Medical Effects of Radiation in the Environment found up to six times the expected level of leukaemia cases around Dounreay. Ms Coghill's case was part of that study.

A Medical Research Council report on cases around the Sellafield plant, Cumbria, last week suggested that men exposed to high doses of radiation might have a higher probability of fathering children with leukaemia or other cancers.

The solicitor representing some 85 leukaemia sufferers in the Sellafield area wrote yesterday to British Nuclear Fuels urging it to set up a compensation fund for the children of Sellafield workers who are victims of leukaemia.

Theme park fear
BRITISH wildlife conservationists fear that a nature reserve on 1,000 acres of marshland in Essex could be used as the site for a proposed £2bn theme park and film studios.

The Ministry of Defence confirmed yesterday that the marshland, which is both a firing range and a nature reserve, would be available for sale. The MoD, however, said that the company which bought it would have to provide an alternative site for a firing range.

The proposals for building the film studios and theme park at Rushmore in Essex have still to be approved by the London Borough of Havering. A meeting is expected shortly to decide whether outline planning permission should be granted.

RR assurance sought
MR John Prescott, shadow transport secretary, yesterday called on the Government to renegotiate British Rail's corporate plan to ensure the full implementation of the safety programme recommended by the inquiry chaired by Sir Anthony Hadden into the 1988 Clapham rail disaster.

Mr Prescott wrote to Mr Cecil Parkinson, the Transport Secretary, demanding an assurance that there would be no delay in implementing the recommendations.

He said he believed the full cost of fulfilling the recommendations in the Clapham inquiry report would be "far higher" than the £200m budgeted for in British Rail's new corporate plan.

deductible will be earnings-related on a week-by-week basis.

Mr Sperry said: "In the case of people whose pay varies... a separate calculation will have to be made every time. The employer will be able to take £1 towards administration costs but that is hardly likely to compensate."

Mr Sperry also suggested that Labour local authorities bitterly opposed to the poll tax might use the orders to make business bear the burden of pursuing defaulters. "It will be

a godsend to them to be able to say that the business community can do it."

There is also concern about the implications for pay pressure and labour turnover. The people most likely to be affected will probably be in lower-paid jobs. By the time default has been established, an employer might have to collect, say, £400 in less than six months.

In such circumstances, some people may well be better off unemployed and able to qualify for a poll-tax rebate.

Labour links Militant to Field constituency

By Philip Stephens, Political Editor

AN INQUIRY by Labour's National Executive Committee into the activities of members of Mr Frank Field's Birkenhead constituency party has concluded that there is evidence of infiltration by Militant extremists.

The findings, contained in an interim report, will strengthen expectations that the National Executive Committee (NEC) will decide to overturn the local party's decision to drop Mr Field, the sitting MP, as its candidate at the next general election.

After the local party chose Mr Paul Davies, a TGWU transport union official, as its candidate Mr Field compiled a 150-page dossier alleging wide-ranging irregularities and extremist infiltration.

Some of the allegations have been described by Mr Field's colleagues at Westminster as "fantastic". NEC members have privately criticised his outspen campaign to keep the seat.

The party leadership, however, is thought to consider that the selection process has to be re-run if Labour is to maintain its recent image as a moderate, democratic party which has broken all links with extremists.

The report, prepared by Ms Joyce Gould, Labour's director of organisation, suggests that six local party members may have links with Militant. A seventh, in the neighbouring Wallasey constituency, is also linked with the left-wing group.

Mr Gould recommends a detailed further investigation into the activities of the seven, but has not reached any conclusion on separate allegations of "vote-rigging" during the reselection process.

Labour's NEC has prepared plans to increase the momentum of the move to a "one-member, one-vote" system for elections of key party officers.

It will propose to this year's party conference that the present voluntary system under which each member of a local party can be given a voice in elections for the NEC be mandatory from 1991.

Professor sees full EMS membership possible in 1991

By Michael Prowse

BRITAIN will be able to join the exchange rate mechanism of the European Monetary System in the middle of 1991, according to Professor Alan Budd, economic adviser to Margaret Thatcher.

Writing in *Barclays' February economic review*, published today, Professor Budd says the conditions laid down by Britain should be met by then. France and Italy would have liberalised capital movements and further progress would have been made

on the 1992 single market reforms.

More important, the gap between UK and West German inflation and interest rates, the main obstacle to full membership, should have been reduced. By the summer of 1991, Professor Budd says, UK inflation (excluding mortgage interest) will be 5 per cent, only 1 percentage point higher than West Germany's.

By then, UK interest rates should be down to 12.5 per cent, only 4 to 5 percentage points higher than West German rates, compared with a current differential of 7 points.

An interest rate gap of 4 to 5 points is seen as the largest differential compatible with the stability brought about by full EMS membership.

Joining sooner than summer 1991, however, would be counter-productive because the interest rate differential would be too large. Membership of the exchange rate mechanism would precipitate a sharp fall in UK rates and undermine the

Government's anti-inflation strategy.

Professor Budd warns that full EMS membership next year would not be a painless cure for British inflation. If average earnings, which are rising almost twice as fast as in West Germany, did not adjust quickly, entry could rapidly increase unemployment.

Barclays Economic Review, February 1990, Economics Department, Barclays House, 1 Winborne Road, Poole, Dorset BH15 2BS.

before the European Court - Clarke vs. Croy Precision Engineering.

Mr David Clarke is claiming discrimination against his employer's pension scheme over the amount of benefit received, in that his pension was reduced because he took early retirement, whereas a woman of his age would have suffered no reduction.

If the court rules that Article 119 applies to the Barber case, it is highly likely that it will also rule that it applies too in the Clarke case.

The UK pension industry has argued that it cannot be expected to equalise pension ages and benefits on company schemes until the state scheme has equal ages and benefits. This argument has been in line with the provisions of the various European Community directives on equal treatment in pension arrangements.

So, as a result of the expected European Court decisions, companies face the prospect of having to provide equal pension ages and equal benefits very shortly - possibly decades before the

state scheme is required to do so. Until recently, the majority of company pensions followed the state scheme having a normal retirement age of 65 for men and 60 for women.

Social, demographic and economic pressures are now forcing more and more employers to equalise pension ages and benefits without waiting for the state to move first. Yet the change has been evolutionary, so that the extra burden was being only slowly incurred.

The Europeans could require companies to bring about full equality at a stroke, imposing heavy added burdens. It is unlikely that the court would expect companies to apply its decision retrospectively. However, there is a risk that an existing pensioner or a spouse of a pensioner on an income lower than a woman of the same retirement age and circumstances might have received, could claim bias and seek redress.

These potential cases - and the two now before the European Court - mean 1990 is likely to be decision year for company pension schemes.

Jewellery trade will sparkle, says study

By Maggie Urry

A BRIGHT outlook for jewellery retailers but slower growth for many other sectors of the retail trade are forecast for 1990 by the Corporate Intelligence Group, a research company.

Jewellers have achieved double figure increases in sales volumes for three years running and a fourth such rise is expected in 1990. Corporate Intelligence says in its latest retail research report.

A 13 per cent increase in volume is forecast for this year with sales in value terms predicted to rise by 15 per cent to give a total market of £2.2bn.

The jewellery retail market has nearly trebled since 1980, Corporate Intelligence says, with the Rainers group the prime mover behind this expansion.

The report forecasts that chemist shops will see slower volume growth of 3 per cent in 1990 (it was 3.5 per cent last year) and value increases of 8 per cent. Booksellers are also expected to show a 3 per cent volume growth rate in 1990. That forecast assumes that the

net book agreement, under which book prices are fixed by the publishers, is broken, says Corporate Intelligence.

Off licences will see no volume growth in 1990 after a 2 per cent rise in 1989, the report predicts. Toys and sports shops are forecast to increase their sales volume by 4 per cent and CTRs by 3 per cent.

Retail Research Report, 1989 annual subscription for 10 issues, from Corporate Intelligence Research Publications, 51 Doughty Street, London WC1N 2LS.

NEWS IN BRIEF

Leukaemia patient sues atomic body

By David Churchill

THE UK Atomic Energy Authority is being sued for damages by a former leukaemia patient who claims that radiation from the nuclear plant at Dounreay in Caithness, Scotland, caused her illness.

Ms Sharon Coghill, 19, a student from Aberdeen, was diagnosed as suffering from acute myeloid leukaemia 10 years ago. She was born and brought up near Tunso, which is close to the plant, and claims that radiation from it could be to blame.

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WORLD FUND S.A. (in liquidation)
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L-2953 LUXEMBOURG
R.C. Luxembourg B-21510

TO THE SHAREHOLDERS

The shareholders of WORLD FUND S.A. are advised that an interim distribution of liquidation proceeds of US\$ 22. per share will be paid on February 16, 1990 to shareholders on record on February 15, 1990.

In order to receive the interim distribution of liquidation proceeds the holders of bearer shares should deposit their bearer share certificates with the paying agent, Banque Internationale à Luxembourg, 2 boulevard Royal, L-2953 Luxembourg, and indicate the bank account to which the interim distribution should be paid.

DELOITTE HASKINS & SELLS (Luxembourg)
The Liquidator

NEWS IN BRIEF

Leukaemia patient sue atomic bomb

By David Church

THE UK Atomic Energy Authority is being sued by a leukaemia patient who claims that his illness was caused by radiation from the atomic bomb.

The patient, who is now 40, was born in 1940 in the north of Scotland. He claims that he was exposed to radiation from the atomic bomb when he was a child.

Mr. Church has been paid £100,000 by the Atomic Energy Authority. He is now suing the authority for £1 million.

The Atomic Energy Authority is a government body which is responsible for the safe use of nuclear energy. It was established in 1954.

The patient's lawyer, Mr. Church, says that the Atomic Energy Authority should have known that the radiation from the atomic bomb could cause leukaemia.

He says that the authority should have taken steps to protect the public from the radiation. He says that the authority should have been more careful in the way it handled the atomic bomb.

The Atomic Energy Authority is denying the claim. It says that the radiation from the atomic bomb was not the cause of the patient's leukaemia.

It says that the patient's leukaemia was caused by other factors. It says that the patient should have been more careful in the way he handled the atomic bomb.

Theme park for

THE NEW theme park which is being built at the site of the old theme park is expected to be completed by the end of the year.

The new theme park is being built on a site which was previously used for the old theme park. It is expected to be a much larger and more exciting theme park than the old one.

The new theme park is being built by a private company. It is expected to be a major attraction for the area.

The old theme park was built in the 1960s. It was a very popular attraction for the area. It was closed in the 1970s.

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consultant

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SPEAK SOFTLY,

UK NEWS

CBI survey finds quarter of adults are shareholders

By Hazel Duffy

AROUND one quarter of the adult British population has at least one shareholding, but less than 40 per cent of shareholders have ever sold any shares, according to a survey for a Confederation of British Industry task force.

The survey suggests that share ownership has increased enormously, mostly through privatisation and similar issues, but found that a significant minority of shareholders did not know where or how to buy stocks and shares.

The CBI task force is led by Sir Peter Thompson, chairman of National Freight Consortium. He said: "We found no evidence to suggest that the new generation of private investors would build their first privatisation holdings into balanced equity portfolios, unless there is a radical shift in shareholder attitudes."

The survey, carried out by Harris Research on a sample of 880 adults, took into account the water privatisation issue where relevant.

It found that 43 per cent of respondents saved regularly, most of them to meet a particular future need, so security and convenience were the principal factors influencing investment choice. Only one third were concerned about the rate of interest or the size of dividend.

Separate taxation set to change savings patterns

By Sara Webb

AS INDEPENDENT taxation of husbands and wives draws nearer, investors are showing renewed interest in National Savings schemes, especially those paying interest gross.

Figures released yesterday show that savers continued to withdraw money from National Savings fixed-interest certificates last month, a trend evident over the past year. However, they put more into investment accounts, income bonds and capital bonds than in previous months.

These schemes pay interest gross and the National Savings office attributed the surge of £109.5m net into investment accounts partly to the fact that many couples were reorganising their financial affairs in the most tax-efficient way before independent taxation is introduced in April.

Savers took out £264.2m, including interest, from National Savings schemes, while receipts plus interest amounted to £268.5m in January. The surplus of £4.3m makes January the first month in a year that did not make a contribution to the Government's debt repayment.

In the past, National Savings were used by the Government as a means of borrowing from the small investor. However, as the Government no longer needs a net borrowing programme, it has tried to get savers to take money out of fixed interest certificates once they mature. Withdrawals from fixed interest certificates slipped from £140.6m in December to £135.5m in January. The 30th issue matures this month and substantial withdrawals are expected.

Rising Sun shines into Birmingham's financial area

Richard Tomkins reports on why Japanese banks are starting to open offices in the west Midlands

SOMETHING odd is going on in Birmingham's financial quarter. On the doors of the office buildings lining the streets around Colmore Row, a rash of plaques has suddenly appeared, each bearing the name of different Japanese bank.

Not all the plaques are glinting new — the Sumitomo Bank has been in the city since 1984 and Mitsubishi Bank since 1988. But the tally has risen to six in the last few months.

The Tokai Bank arrived last August, Mitsui Bank and Bank of Tokyo International opened in January, and Sanwa Bank is opening in the summer. Others, such as Dai-ichi Kangyo Bank and Bank of Yokohama, are thinking of joining them.

One explanation for the latest arrivals can be summed up in one word — Toyota. Tokai, Mitsui, Sanwa and Bank of Tokyo are the car manufacturer's main banks, so it is no coincidence that the opening of Birmingham offices follows Toyota's decision to build its European plant 25 miles away at Burnaston in Derbyshire.

Incidentally, the car plant will act as a magnet for other Japanese companies. As well as component manufacturers in the Toyota family, there will be a wider range of companies looking for a foothold in the

European Community in the run-up to 1992.

According to Mr Masao Otsuka, general manager of Bank of Tokyo International's Birmingham office, the Midlands is fast becoming the favourite region for Japanese companies coming to Britain.

He said: "There are already 80 Japanese companies within 100 kms of Birmingham and another 10 or 20, perhaps even 30 or 40, are likely to arrive over the next two years."

Toyota is one factor but Japanese companies were already well established in places such as Telford, Redditch and Wrexham and "new arrivals feel more comfortable in places where there is already a Japanese community."

Yet there is more than this to the influx of banks. Those now arriving in Birmingham acknowledge that they had been contemplating expansion from London into the regions long before Toyota announced its decision.

Indeed, just as Sumitomo and Mitsubishi's arrival in Birmingham pre-dates the Toyota announcement, Sanwa and Fuji Bank have offices in Manchester, and Sanwa has an office in Edinburgh.

So it is hard to escape the conclusion that, while Toyota's arrival explains the timing of



Masao Otsuka: bringing the Bank of Tokyo into the heart of Birmingham

the Japanese influx, the arrival of the banks marks another stage in the overall expansion of Japanese banking in the UK.

The Japanese play down suggestions that the Birmingham offices present a competitive threat. These bureaux are just representative offices, not branches, and so cannot transact business, they say. With just one or two officials apiece, they are certainly too small to make any serious inroads.

The Japanese portray them more as intermediaries, providing Japanese clients with information and advice. For example, they might seek opportunities for Japanese companies to enter into joint ventures with British ones, or help newly arrived Japanese companies to set up working relationships with local lawyers, accountants and banks.

Still, there is nothing to stop the Birmingham offices picking up business from UK companies in the Midlands and

transacting it through their London offices. Nor do any of them disguise their willingness to do just that.

The London offices are already active among the top 100 UK corporates in last and project finance, trade finance and money market instruments. Yet competition for this kind of business is fierce and one aim of stretching out into the regions is to get closer to the next tier of corporates, where profits tend to be fatter.

Sumitomo and Mitsubishi have already enhanced their ability to liaise with British companies by appointing British banking officers to work alongside Japanese managers.

The arrival of the Japanese banks is excellent news for the west Midlands as a whole. Coming just as fears of a mild recession have aroused doubts about the health of the local economy, it is a massive vote of confidence in the durability and long-term prosperity of the region's manufacturing.

The Japanese influx is a boon to Birmingham's efforts to portray itself as an important financial centre — its overseas bank representation had until recently consisted mainly of the offices run by the Japanese Bank, Nederland, Banque Nationale de Paris and Société Générale.

The indigenous bankers' mixed feelings on the subject are nevertheless understandable. Many remember how the west Midlands boasted a motorcycle industry until the Japanese wiped it off the map. As Mr Bill Watkins, assistant corporate director in Birmingham of Barclays Bank, remarks: "You have to respect the Japanese whatever business you are in. They take a long-term view and represent very formidable competition."

Directors lack training for role, says study

By David Churchill

BRITISH company directors have little formal preparation for their role, according to a survey published today by the Institute of Directors.

The survey of 218 members of the institute found nine out of 10 had received no preparation for becoming a director other than "experience." Less than a quarter had any professional or management qualifications.

The survey was carried out for the institute by Dr Colin Goudie-Thomson, chairman of research company Adaption.

He said: "There does not appear to have been a generally accepted and practised route to the boardroom. Little evidence emerges of systematic and thorough preparation for the role of company director."

The survey also found that the issues of teamwork and

succession were the most pressing concern for six out of every 10 directors.

Only one in four rated the liberalising of European frontiers after 1992 as important, while "internationalisation and preparation for the globalisation of business" ranked last of 10 issues.

Mr John Harper, head of professional development at the institute, said: "Too few direc-

tors in Britain spend sufficient time raising their awareness, updating their knowledge and improving their understanding on matters of concern to professional directors."

It was not surprising that "many boards do not have an adequate rather than an excellent job."

Professional Development Of And For The Board, Institute of Directors, 116 Pall Mall, London SW1Y 5ED

Government considers merger of two tax functions

By Hazel Duffy

THE Government is thinking of bridging the historic divide in the Inland Revenue between tax collectors and inspectors.

The 127 local collection offices are responsible for the collection of taxes, while the 632 local tax offices are charged with ensuring that taxes are paid. They advise employers on setting up methods for tax payment and follow up on those who have not paid the correct taxes.

Mr Peter Lilley, Financial

Secretary to the Treasury, has said the Commons: "The time is now ripe to consider whether greater operational efficiency and improved service to taxpayers could be obtained by bringing together the work of local collectors and inspectors of taxes."

Between them, the offices have more than 50,000 staff around the country. Experiments to test the feasibility of merging the two functions will be carried out by the

Board of the Inland Revenue. Details will be announced in a preliminary work has been taken further.

The Government is clearly urging the Inland Revenue to increase efficiency. It is one of the largest departments within Whitehall and has a distinctive character. So far, it has put forward only one operation, the Valuation Office, as a possible candidate to be a possible executive agency.

Mr Lilley praised the depart-

ment's plans for the next three years, which cover the implementation of the Government's tax changes and include the introduction of independent taxation for husbands and wives from April this year.

However, ministers would like to see the Inland Revenue nominating more operations to be run as agencies. Executive agencies are aimed at giving more efficient and open management than the traditional Whitehall set-up.

BA acts to strengthen marketing operations

By David Churchill, Leisure Industries Correspondent

BRITISH AIRWAYS is reorganising its senior management structure to strengthen its marketing in Britain and the US.

The move follows the resignation earlier this month of Mr Peter Owen, BA's operations director, and the merging of flight operations and airline marketing under the directorship of Mr Liam Strong, previously marketing director.

In addition, BA is poised to sell its 50 per cent share in Redwing Holidays, the third largest tour operator, because of the slump in short-haul package holiday sales this year. Owners abroad, the tour operator and airline-seat booking group, is understood to be negotiating to buy the stake.

BA has set up a central marketing department to cover all the non-flight aspects of running the airline, such as ticket sales, leisure activities, and advertising and brand development. In charge of the department will be Mr Dan Brewin, formerly head of the distribution department.

Mr Miles Bat, previously in charge of the smaller brands marketing department, has been given a top marketing job in the US.

BA, the British airport group, said yesterday that the average delay for passengers at Heathrow airport in January was 20 minutes — four minutes less than the average delay in January 1989.

This figure did, however, include the 32 per cent of passengers experiencing no delay at all. For those suffering actual delay, the average was 34 minutes against 41 minutes in January 1989.

INVITATION No. T-10/82

The Peoples Democratic Republic of Ethiopia has received a loan from the American Development Fund in various currencies towards the cost of Road Maintenance Equipment and spare parts and it is intended that the proceeds of the loan will be applied to eligible payments under the contracts for the supply of equipment and spare parts.

The Ethiopian Transport Construction Authority now invites sealed bids from eligible bidders for the supply of Road Maintenance equipment and spare parts. Only Suppliers from member countries of the African Development Bank and African Development Fund state participants are eligible to bid. All Goods and ancillary services must have their origin from member countries of ADB and ADF State participants.

Interested eligible bidders may obtain further information from one set of bidding documents to be collected during office hours from the Procurement Office Room No. 106 upon payment of non-refundable Birr 60.00 per set. Each request for documents shall be accompanied by the Official name and address of the bidder.

The closing date for submission of bids shall be 10:00 hours local time on May 9, 1990 at which time the opening will take place in the Conference Room 4th floor of the Ethiopian Transport Construction Authority Headquarters Building.

The Ethiopian Transport Construction Authority reserves the right to reject any or all bids that are not in conformity with all conditions and specifications mentioned in the tender.

ETHIOPIAN TRANSPORT CONSTRUCTION AUTHORITY

Rothmans finance director

Mr Jan P. du Plessis has been appointed group finance director of ROTHMANS INTERNATIONAL from March 1. He succeeds Mr Malcolm E. Thompson, who died last month. Mr du Plessis is finance director of Compagnie Financière Richemont, a post he will retain while moving from Switzerland to the UK. The Swiss company is Rothmans major shareholder.

FKI has appointed Mr Eddie P. Bartlett as managing director, control products division.

WILLIAM WEAVER, Remgro, has appointed Mr Geoffrey Stallard as managing director, a new post. He was a senior consultant with CIC Management.

RICHARDS, LONGSTAFF (INSURANCE) has appointed Mr Colin Fellows as managing director, and Mr Melvyn Furlford as director, marine division. Mr John Allen as director, agency and commercial divisions. Mr Ian Hall as director, and Mr Chris Allen as associate director, special risks division.

Mr Robin Watson has been appointed director of HIGHWAY VEHICLE LEASING's new LeaseLink scheme.

HYMANS ROBERTSON & CO, Glasgow, consulting actuaries, has appointed Mr George Henshaw as partner responsible for its investment consultancy service. He was investment manager at Scottish Mutual Assurance Society.

Mr R.C. Wiggins has been appointed an executive director of BOWLING MARINE & ENERGY leading a team of associate directors — Mr C.R. Doherty, Mr M.J. Banks, Mr J.J. Richards and Mr W.L. Crickmore.

Mr Michael Frankel has

APPOINTMENTS

joined the RIVER ISLAND CLOTHING CO in the new post of director of footwear. He was commercial director of British Shoe Corp.

Mr Peter Barnes has been appointed managing director at B. MANSSELL (WESTMINSTER). He joins from Ashby & Horner where he was commercial director.

Mr Tony Riley has been appointed managing director, and Mr Ewan Bryson become financial director at MICRO-X.

Mr Andrew McQuillan has been appointed managing director of KHD GREAT BRITAIN, UK subsidiary of Klockner-Humboldt-Deutz Group, Cologne. He joins from Perkins where he was in charge of subsidiary Gardner Engines. Mr John Edwards has been appointed general manager of the engine division Deutz Motor. He was in the product marketing department in Cologne.

ROBSON RHODES has appointed Mr David Conliffe as senior manager of its national tax investigation unit. He joins from Post Merwick McIntosh where he was involved in enquiry branch and local tax districts investigations. He previously spent 16 years with the Inland Revenue. The firm has appointed Mr Philippe Dumartret as financial management and strategy consultant in Cambridge. He joins from KPMG Fiduciaire de France, Paris.



TRY GROUP has appointed Mr Alastair A. Duncan (above) to the board, and as managing director of Try Property.



Mr George Sewell (above) has been appointed managing director of QUAKER OATS UK, succeeding Mr Bob Thomson, who becomes chairman with added responsibilities in Europe.

Mr Peter Whitaker has been appointed general manager of L. GARDNER AND SONS, Manchester, diesel engine manufacturer and part of the Perkins group, a Varty Corporation company. He was sales and marketing director of Perkins Peterborough Engines.

Mr Garner Roberts has been appointed to the board of HAWKER SIDDELEY POWER ENGINEERING as commercial director and company secretary. He was commercial manager of Hawker Siddeley International and has been with the group since 1974.

MORTGAGE SYSTEMS, a subsidiary of British & Commonwealth Holdings, has appointed Mr John West as finance director. He was financial director at United Dutch Holdings in Holland, and succeeds Mr Ian Carr who has taken another post in the BAC group.

STOY HAYWARD has appointed Mr Roger Roberts (pictured) as director of marketing. He was senior marketing manager in the national office of Ernst & Young. A Canadian, he came to Britain over ten years ago working in the London office of the National Film Board of Canada. He joined Arthur Young in 1985.

This notice is issued in compliance with the requirements of the Council of The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited ("The Stock Exchange"). It does not constitute an invitation to the public to subscribe for, or purchase, any shares or warrants.

Listing Particulars relating to The Five Arrows Chile Fund Limited have been delivered for registration in accordance with Section 149 of the Financial Services Act 1986 to the Registrar of Companies in England and Wales.

An application has been made to the Council of The Stock Exchange for the Participating Shares and the Warrants to be proposed to be issued and admitted to the Official List. It is expected that the listing for the Participating Shares and for the Warrants will become effective on 21st February 1990 and that dealings in the Units, Participating Shares and Warrants will commence on 24th February 1990.

THE FIVE ARROWS CHILE FUND LIMITED

(a closed-end investment company with limited liability and registered under the laws of Guernsey with registered number 21738)

Placing of 1,500,000 Units, each comprising five Participating Shares and one Warrant at a price of US\$50 per Unit

Each Warrant will confer the right, on the terms and particulars specified in the Prospectus, to subscribe for one Participating Share at a price of US\$ 10 on any business day from 1st July 1990 until 30th June 1992.

Particulars of the Participating Shares and Warrants are available in the Statistical Services of Extel Financial Services Limited. Copies of the Prospectus which comprise Listing Particulars relating to The Five Arrows Chile Fund Limited may be obtained from the Company Announcements Office, The Stock Exchange, 46-50 Finsbury Square, London EC2A 1DD on 19th and 20th February 1990, and until 5th March 1990 (Saturdays and public holidays excepted) from:

The Five Arrows Chile Fund Limited
St. Julian's Court, St. Julian's Avenue
St. Peter Port
Guernsey
Channel Islands

Smith, New Court
Corporate Finance Limited
Cheyne House
24 St. Swinburn's Lane
London EC4N 8AE

19th February 1990

N M Rothchild & Sons Limited
New Court
St. Swinburn's Lane
London EC4N 8AD

EUROPEAN ECONOMIC COMMUNITY

USD 75,000,000 - 10% - 1983/1985

Bondholders are hereby informed that the redemption instalment of USD 7 500 000, due on March 24th, 1990 has been met by a draw by lot on February 7th, 1990 in the presence of Madame Jeanne Houssez Notary Public, in Luxembourg.

Consequently, the 7 500 bonds of USD 1 000, numbered: 2905 to 3591 inclusive and 3592 to 38904 inclusive

will be redeemable at par, coupons at March 24th, 1991 and subsequent attached, as from March 24th, 1990, date at which they will cease to bear interest.

Redemption and payment of interest due on March 24th, 1990 will take place at the following banks:

CREDIT LYONNAIS, Luxembourg - BANQUE INTERNATIONALE A LUXEMBOURG, Luxembourg - MORGAN GUARANTY TRUST COMPANY OF NEW YORK, Bruxelles - SOCIETE GENERALE, Paris.

Outstanding amount after this 8th amortisation

USD 57 500 000.-

We recall that the following bonds for proceeding instalments have not yet been presented for collection.

March 24th, 1989: 5827/5890 7501/7534 7528/7593
5835/5893 7564/7583
5899 7701/7700
6868/6868 7616/7617
6872/6878

The Fiscal Agent
CREDIT LYONNAIS - LUXEMBOURG

To the Holders of Warrants
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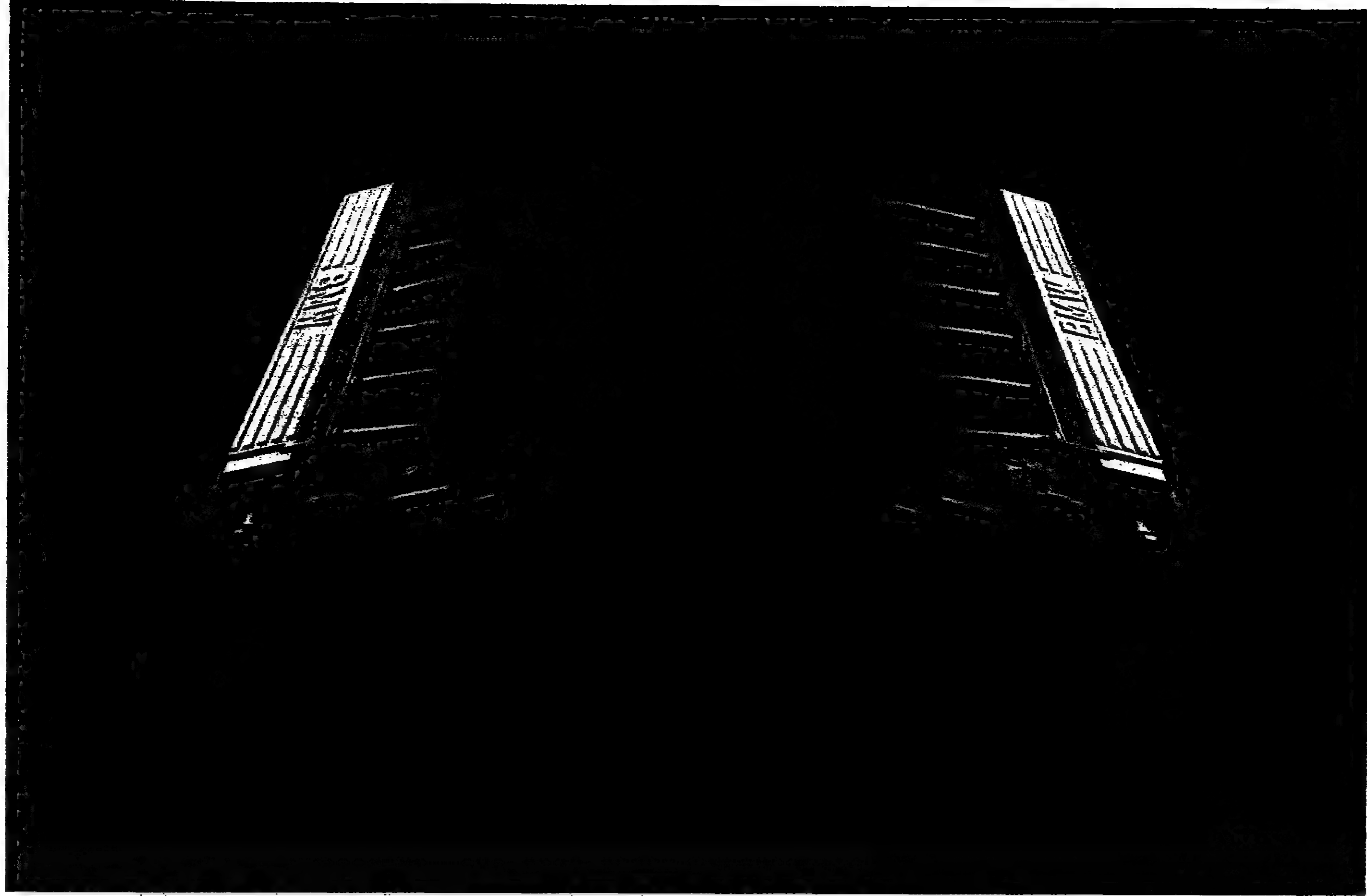
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AND CARRY A BIG STICK.

Those words were first used by Theodore Roosevelt to describe US foreign policy.

But they could easily be used in 1990 to describe the BMW 750i. For the sheer majesty of the car belies its might.

Beneath the bonnet sits a perfectly balanced V12. A 5 litre engine that sweeps the car from 0 to 60 mph in precisely 7 seconds. And develops 300 bhp.

Super power, indeed.

The walls of the cylinders are machined from lightweight aluminium, to an accuracy of 1.5 microns. (To put that into perspective, a human hair is 50 microns thick.)

The result is the most harmonious engine found in any luxury saloon.

Policing its performance, there are two Motronic engine management systems.

Their sensors, like so many nerve endings, continually monitor the engine's performance. Retuning it up to 600 times a second, to ensure peak efficiency at all times.

Such an unconventional engine seemed no place for a conventional throttle cable.

Instead, BMW have installed an electronic accelerator. A device that speeds the driver's commands from pedal to power plant by voltage rather than linkage.

The automatic gearbox also integrates engineering with electronics.

BMW's engineers have developed a four-speed transmission that "talks to" the engine management system each time it shifts gear.

Changes are so smooth, you may need to glance at the rev counter to detect them.

To transfer the power to the road equally smoothly the 750i is equipped with ASC. BMW's Automatic Stability Control.

It ensures you have traction at all times, by adjusting the engine output if it detects the merest difference in speed between the front and rear wheels.

This concern for your well-being continues inside the car. The sports seats are made of the finest Nappa leather and can be adjusted electronically.

While to ensure that good relations between driver and passengers prevail, separate air conditioning is provided.

What's more, the electronic power steering is road speed related, so it proves equally responsive whether cruising down the motorway or easing into a parking place.

The final words on the subject belong to "What Car?" "BMW's new 750i comes tantalizingly close to Motoring perfection."

A remark that was elicited without recourse to any big stick.



THE ULTIMATE DRIVING MACHINE

UK NEWS

Group of Northern Ireland's teenagers learn a lesson in tolerance

A GROUP of teenagers are having a history lesson in Hazelwood College, north Belfast - an area rent by sectarian violence in the past 20 years.

The lesson is about the troubles: the emergence of the Civil Rights movement in 1968 in response to the deepening discrimination against Catholics, the Protestant reaction and the ensuing violence which led to the intervention of the British Army.

Hazelwood's headmaster is a Methodist. The history teacher, Ms Eileen Lenehan, is a Catholic. The pupils are 55 per cent Catholic and 45 per cent Protestant. Among the teenagers, there are some who play in the hands of the Orange Order and others who go to mass on Sundays.

Ms Lenehan begins her lesson by distributing quotes from Protestant and Catholic politicians before encouraging her pupils to participate in a lively debate on why the people of Northern Ireland acted as they did in the late 1960s.

Not so many years ago, the idea of Protestant and Catholic schoolchildren, sitting side by side, sharing their views on a subject as traditionally partisan as the troubles would have been dismissed in Northern Ireland as an irresponsible idiosyncrasy. In 1968, in north Belfast, Protestant and Catholic children were on opposite sides of the barricades.

Today, however, Hazelwood

Jimmy Burns on how Ulster's growing number of integrated schools have become part of a package of government reforms aimed at reconciling the Catholic and Protestant communities

College is one of a growing number of integrated schools which are being promoted by the Government as part of a bold strategy for improving community relations.

Part of this strategy is the gradual introduction, throughout Northern Ireland's educational system, of a curriculum aimed at encouraging reconciliation between the Catholic and Protestant communities.

An emphasis on integrated schools and a new curriculum forms part of a package of reforms contained in the Government's Education Order (Northern Ireland).

The new curriculum focuses on subjects such as history, religion and literature, which in the past have tended to reinforce sectarian prejudices from an early age.



Playtime: pupils at Hazelwood College, an integrated Belfast school, free of stereotyping

The Government's draft education programme is called Education for Mutual Understanding. One of its objectives is that, by the age of 16, "pupils should develop a knowledge and understanding of conflict in a variety of contexts and of approaches to its resolution by non-violent means."

The author of the draft, Mr Jonathan Harkin, is a lecturer in history at Belfast's College of Business Studies. He said

the new curriculum was an attempt to force both sides to look at each other's traditions and to see that "each has value and each has validity."

Mr Tom Rowley, principal of Hazelwood College, said the school's hidden curriculum was to develop "an ethos based on altruism, justice, democracy, openness and unconditional acceptance." He added: "We believe it is the function of the school to lead society,

not simply reflect it. We, therefore, felt it necessary to deliberately construct a mini-society based on the values, attitudes and morality of a society that does not exist in Northern Ireland."

Critics of integrated schools say that they are only workable in middle-class areas where parents whose children have been unable to qualify for grammar schools (the selective 11-plus examination is still

widely used in Northern Ireland) choose a socially acceptable experiment instead.

Hazelwood was opened in a working-class area which suffers from a high rate of unemployment. It is flanked by Catholic estates on one side and Protestant estates on the other, like a crack in the middle of a sectarian jigsaw. Within the area, there have been more than 20 political murders in the last two years.

Attempts by Hazelwood to tackle objectively the controversial topics in Irish history, such as the Plantation of Ulster and the 1641 Rebellion, to investigate the writings of Catholic playwrights, such as Sean O'Casey, with Protestant students and to develop a religious studies programme of common Christianity, moral education and comparative religion, have not been trouble-free.

Since the school's official opening in 1986, pupils at Hazelwood have, on occasion, been attacked by children from Catholic and Protestant schools and teachers have been threatened and their cars vandalised. Mr Rowley said: "We have experienced hostility, lies and innuendo from representatives of the existing system."

Dr Brian Mawhinney, Northern Ireland's Education Minister, believes that by developing an enlightened generation, the new education programme could facilitate, in the medium to long term, the kind of con-

sensus which older politicians appear incapable of reaching.

However, his education programme is facing hostility from both sides of Northern Ireland's historic religious divide. Until now, the majority of Protestant children have attended controlled (state) schools while their Catholic counterparts have attended maintained (church) schools.

Now the fear is that the Government's decision to give integrated schools public money for all running and capital costs will put Catholic and Protestant schools at a financial disadvantage and undermine what is perceived as a genuinely religious education.

While the issue of integrated schools remains controversial, there appears to be a wider acceptance of the Government's curriculum proposals in so far as they seek to instil a broader definition of historical truth and Irish culture.

Mr Eamon Johnston, vice principal of St Louise's, a Catholic girls' school off the Falls Road in the middle of Catholic west Belfast, believes that Northern Ireland's education system should continue to offer choice.

He said: "What you need is for people to accept that they are different rather than to be forced together. This is how a consensus is built." His school counts among its pupils the children of Catholics who have been imprisoned or shot.

Mr Johnston said that Pro-

testants could be bused into west Belfast but thinks such an option is politically and socially unrealistic.

He also does not share Mr Rowley's faith that the problems of Northern Ireland can be solved through education alone. "Protestant and Catholic children get on pretty well when they meet," he said, "but when they go back to their communities, the same stereotypes re-emerge. . . . Religion has been an aggravating problem in Northern Ireland rather than a fundamental problem. The struggle is for jobs."

The official emphasis at St Louise's is on keeping a sense of normality in the middle of a violent environment - last month three Catholics were shot dead by the security forces just around the corner from the school entrance - and maintaining high educational standards so that pupils are given a better opportunity to enter the labour market.

The school also independently pursues its own education for mutual understanding by organising visits to Protestant schools and joint holidays. Its own curriculum is both broader and more flexible than the religiously-biased education offered by more traditional Catholic schools.

"Given the background of the children we have here," Mr Johnston said, "we try and send over backwards to see the point of view of the [Protestant] settlers."

Brooke says there may be pause in Anglo-Irish talks

By Philip Stephens, Political Editor

MR PETER BROOKE, the Northern Ireland Secretary, indicated yesterday that a pause in the Government's meetings with the Republic of Ireland might provide the background for renewed talks between local politicians in Northern Ireland.

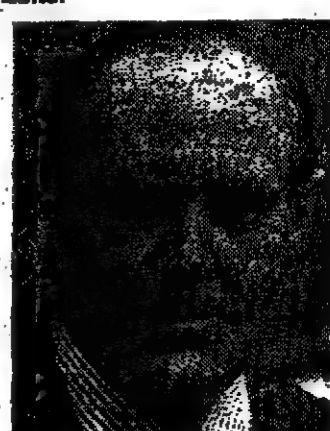
Speaking ahead of a meeting today with unionist leaders, Mr Brooke said that the unionists' demand for a suspension of regular contacts with Dublin under the 1986 Anglo-Irish agreement remained an obstacle to talks between Protestant and Catholic political leaders in the province.

Interviewed on BBC television's On the Record programme, he said that there could be a "gap" in those contacts, if that would pave the way for both sides in Northern Ireland to negotiate a new political settlement.

Mr John Hume, the leader of the mainly Catholic SDLP said on the same programme that his supporters would not accept a formal suspension of the Anglo-Irish accord - as demanded by the unionists as a precondition for talks.

The Northern Ireland Secretary appeared to signal that a lengthy gap between meetings - as occurred between May and September last year - might provide the basis of a compromise.

He insisted, however, that he would not be prepared to convene a meeting of the constitutional parties in the province unless there was "a significantly better than even"



Peter Brooke: hopeful signs make agreement possible

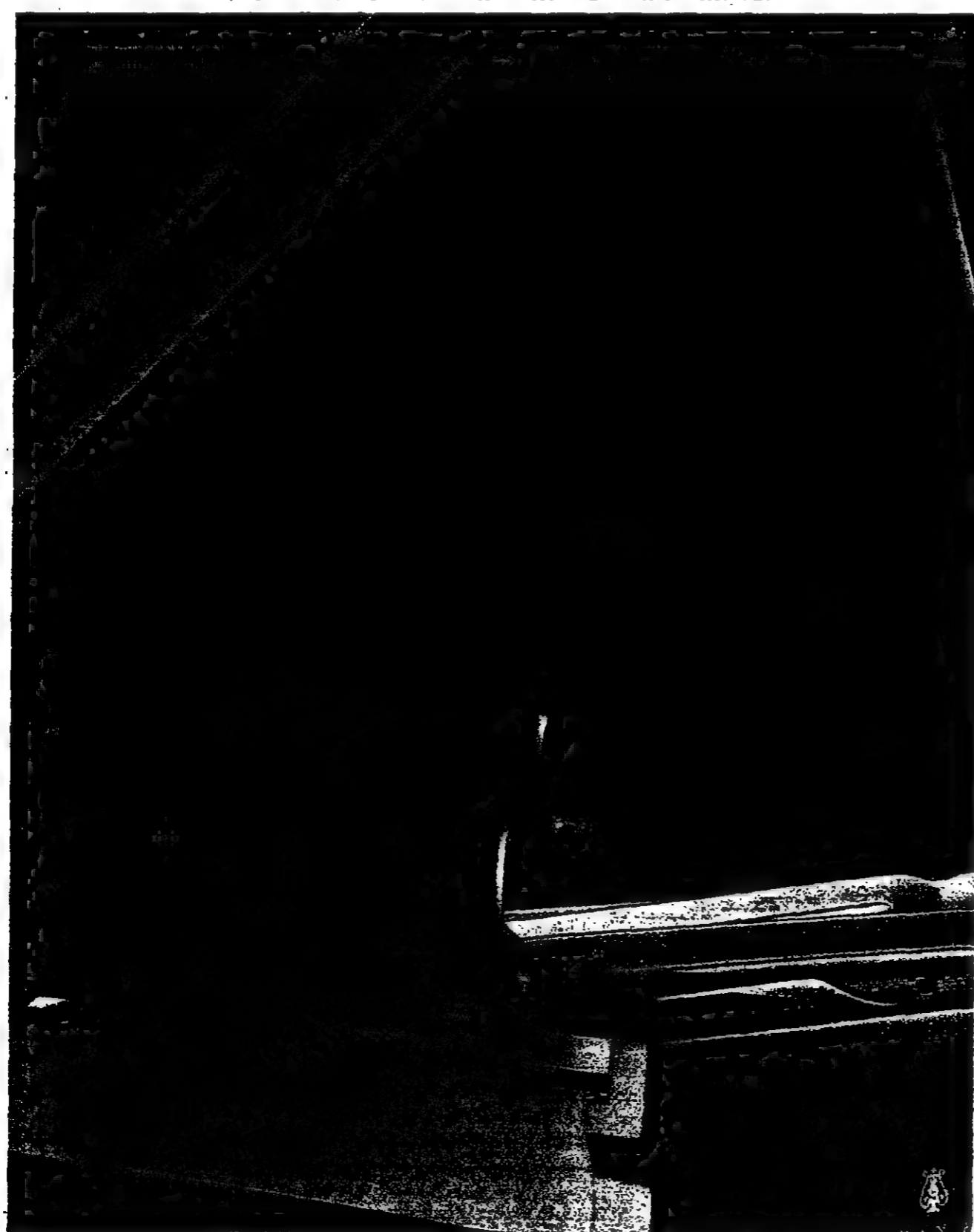
chance that they would reach agreement.

Mr Brooke said he was reluctant to use the phrase "power-sharing" to define the ultimate goal of such talks but agreed that it provided a useful shorthand for a devolved administration which would distribute authority between the two communities.

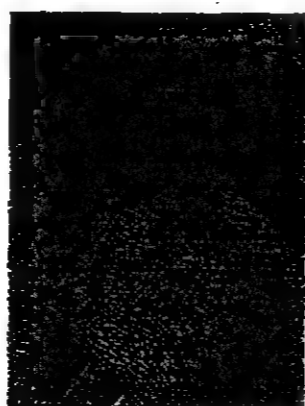
Both the unionists and the SDLP had shown the will to break the present deadlock in his contacts so far, he said, but he stressed that hopeful signs still made a durable agreement a possibility rather than a probability.

His meeting today with Mr James Molyneux, leader of the official unionists and the Rev Ian Paisley, leader of the Democratic Unionists, is expected to be followed by further contacts with Catholic leaders.

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ARTS

ARCHITECTURE

Keep in harmony with nature

"Man takes a positive hand in creation whenever he puts a building upon the earth beneath the sun." The words that the American architect Frank Lloyd Wright wrote have a ring to them that is still true today. Wright, in his philosophy and his architecture, is consistent in his beliefs that man as a building animal should remain close to nature and add nothing to the earth that is not part of the organic whole.

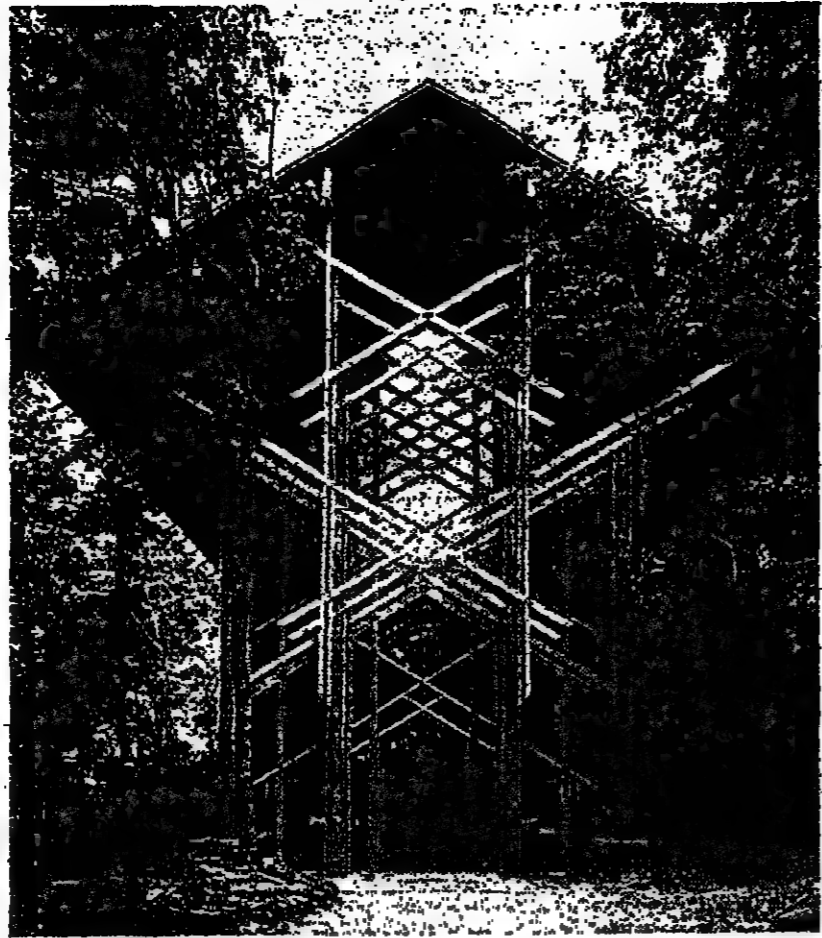
There is a metaphysical as well as a holistic tone to much of the work of Frank Lloyd Wright. "Architecture is a great spirit," he wrote, and for him architecture was always something that could be separated from mere building by its spiritual qualities and by its relationship to nature.

At the end of this week in Washington D.C. a ceremony will take place that has a considerable significance for architectural futures. The American Institute of Architects has awarded its 1990 gold medal (the equivalent to our own Royal Gold Medal) to the relatively unknown architect Mr. Fay Jones.

This is important because Jones is out of the mainstream and yet a key part of a tradition. He is an architect best known for his work in Arkansas, USA. He has created relatively few buildings, but they are of great beauty and are astonishing for their harmonious relationship with nature. Jones represents a strong American tradition which was intensified by Frank Lloyd Wright - a belief that nature itself is the best source of inspiration for architects and artists. Ruskin and his artistic doctrine of "Truth to Nature" finds powerful echoes in the work of Wright. But he was part of that American stream that produced Transcendentalist writers like Emerson, Whitman and Thoreau who stressed the divinity within man and within nature.

Fay Jones is a product of the school that Frank Lloyd Wright which was established in Taliesin to continue the teaching of his philosophy. To hear Mr. Jones speak is to hear the authentic voice of a strong American tradition. "Always my design philosophy is one of organic fabrication, the unity of part and whole." He uses local Arkansas materials in his houses, halls and churches. The local oak and redwood trees and the indigenous stone serve him well at the Thorncrowne and Cooper chapels, and the Pinecroft Pavilion. There is a primal sense of place - his buildings do not disturb their surroundings; instead they elevate them by the gentle imposition of a geometry inspired by nature.

It was Wright who spoke of "that



Thorncrowne Chapel in Arkansas: the inspired work of Fay Jones.

rutless but harmonious order that I was taught to call nature," and his architecture is the best illustration we have of a modern understanding of that strange synthesis of natural and spiritual values that produces art. Wright was the product of a Welsh Unitarian family that had settled on the Wisconsin prairie. He sought throughout his creative life a sense of harmony that grew from the land. His hopes for a matching, "organic society" may not have yet been realised but he was a prophet of much of the "green" environmental thinking of today and Jones's work is an exemplary demonstration of putting such thinking into practice.

It is important to note that Jones's work is not an imitation of Wright; his buildings are powerful and original.

His best known architectural achievement is undoubtedly the Thorncrowne Chapel at Eureka Springs in the Ozarks in Arkansas. The idea of the chapel came to the owner of a piece of land that has a remarkable view of the mountainous scenery. Noting that travelling always stopped at the same spot to admire the panorama, the landowner decided to build a wayfarer's chapel to welcome them. His brief to Fay Jones was to create something that would not damage the land and would enhance the "spirituality of the place". The chapel achieves this through its delicacy. It is an intricate, web-like wooden baffle structure that has an engineering relationship to great gothic churches of the past. Trees were carried to the site and every possible effort was

made to see that no damage was done to the surrounding woods. The whole timber construction was rubbed by hand with a grey stain so that the new building would harmonise with the colour of the bark of the local trees. Although the chapel is only twenty by sixty feet it has a presence that is memorable. The architect believes in the use of archetypal forms - the pointed gable, the buttress, the web of structure in the roof, the result is full of memories of ecclesiastical buildings, but the architectural interpretation is new.

Just 50 miles north of New Orleans at Plaquemine is another kind of woodland temple by Jones. At the Crosby Arboretum he has designed the simplest open timber pavilion (known as Pinecroft Pavilion) where talks are held and the natural surroundings are interpreted for visitors. It is the most elegant wooden structure that seems to grow from the ground like a rooted grove of trees. The shingle and openwork roof looks like a giant pair of hands wings poised for flight. Nature and architecture meet in brittle harmony.

A more recent work is another small chapel at Bella Vista, Arkansas - the Cooper Memorial Chapel. Here wood and glass are combined with steel to allow Jones to build curved arches - a development of the angularity of the Thorncrowne chapel. Oak, redwood and bronze finished steel combine to form an almost Gothic skeleton rising up in a series of curved arches. The lacey quality allows for views into the woods and dappled shade within the church. The soaring interior and the careful geometry do not distract from the surrounding landscape. The visitor is made to feel a part of the forest almost nourished by sense of unity, of architecture growing naturally from the earth. You cannot help but agree here with Frank Lloyd Wright: "Nature furnished the material for architectural motifs... her wealth of suggestion is inexhaustible... there is no source so fertile, so suggestive, so helpful aesthetically for the architect as a comprehension of the natural law."

Fay Jones demonstrates so clearly the need for architects and nature to work together. The award of the AIA Gold Medal to him marks a new awareness that we abuse nature at our peril. He shows us the glorious virtues of harmony while also demonstrating that architectural development is not incompatible with delicacy and care.

Colin Amery

The Real World?

SONO THEATRE

Michel Tremblay is the best known Canadian playwright before the British public. He has been the spearhead of the French-Canadian theatre renaissance in Quebec Province with his polyglot, subtly sensitive, cultural cross-currents that can be as contemptuous of French patronage as of the old British obtuseness.

Perhaps significantly his works have recently been enjoying their British premiere not down south but in Scotland.

In the play given its English premiere by Sandpiper Productions at the Soho Theatre (the erstwhile Soho Poly) one might fancifully discern a blend of Pirandello and Ayckbourn. Illusion and perceived reality overlap, are superimposed, clash and part.

Truth is groped for through the young protagonist's deliberate fiction; but at times it seems he is carried away by what he pens to the extent of believing it the revelation of literal truth.

Two sets of people play out emotional situations. One lot is the family of aspirant writer Claude; the others are his versions of them in the play he has written. Apart from the improbability of a playwright keeping the characters' real names, the device works well enough.

Claude's mother (Pamela Merrick, thin-lipped with

reproachful pain as the only other person who has read her son's manuscript) is contrasted with the elegant, pearly fictional mother. The real Madeleine defends Claude's father, a beery insurance salesman given to dirty jokes and flings in grubby hotels, against the accusations in her son's play; that he is unfaithful, selfish and brutal.

Tremblay's strength lies in his depiction of the ambiguities of family ties, the resigned compromises, grudging understandings, the *modus vivendi* tacitly arrived at, often to the angry amazement of outsiders.

In Claude's play we see Madeleine throw her husband out and the daughter of the house, a mini-skirted professional go-go dancer (it is Montreal in 1965) challenge him over his lewd intentions.

In real life father and daughter share breezy affection and explain away the miserable would-be writer's misconceptions. There is a terribly soggy lurch into the transcendental cliché of non-communicating father and son (Poppa can't talk about feelings - "That's just the way I am" he cries in anguish) but the play is redeemed by the characterisation of Claude, the son.

For all his sensitivity, Claude emerges as the solemn, bookish child who observed all, judged and condemned all, now an over-earnest intellec-

tual whose imagined characters act to the strains of Mendelssohn when his mother prefers Frank Sinatra. Marcus D'Amico plays with a passion and sensitivity that sweeps cliché aside. Finally the raw creative artist is glimpsed as, after the humiliation of rejection and with tearfully increasing confidence, he learns how to wound, not knowing as yet the cost exacted from others for this gift - or, one day perhaps, from himself.

The American-born Lisa Forrell's direction does not quite overcome the limitations of the tiny stage when reality and fiction are playing simultaneously, but she does evoke fine acting in a cast from both sides of the Atlantic. The bumpiness of family life, its embarrassments (the recollection of awful Poppa insisting on buying drinks for his son's hippie friends has a toe-curlingly authentic ring) and glancing regrets, as well as its high drama, are well caught.

Only the son's final insistence on his incest theory (a good thing Willy Loman never had daughters) strikes an inconsistent note. Tremblay has shown the monsters in the boy's play to be no more than the emotional aches and hungers of family ego. These are the villains and quite bad enough as they are.

Martin Hoyle

Sibelius & Nielsen

BARBICAN HALL

For the current BBC Symphony season, the composer Robert Simpson's splendidly partisan and perceptive programme notes are a regular pleasure, something you miss if you listen late at home. Saturday's programme, devoted to late-tonal symphonists, might have been his own heartfelt choice (perhaps it was?) - but the conductor Andrew Davis made it sound his own, no less passionately, and the result was a concert that confirmed programme-makers' longstanding suspicions.

It also confirmed the opinion held in some quarters that Davis is a conductor who has gone off the boil; every piece was lit up with keen, professional imagination.

Even the accompaniment to Sibelius's violin concerto, not something that many conductors take trouble over; here, Davis ensured that it gave alert, deep-throated answers to

the solo role which it frankly subserves. UK Hoelscher deserved no less, for he pursued the hybrid lyrical impulse of the piece with single-minded conviction. (There's a fair bit of Brahms, some cosmopolitan "sopranos" a lot of Wieniawski, touches of earthy local colour and plenty of snarling G-string; and memorably effective some of it is, too.) Hoelscher gave a strong impression of enjoying the piece and possibly, even believing in it.

It was *Night-ride and Sunrise* however, which Sibelius composed only four years later, that revealed a truly original imagination at work. The pictorial intentions declared in the title might have been realised in various familiar ways; Sibelius found new and strange ones, weirdly vivid in themselves and looking forward to his late symphonies. The galloping journey seemed to proceed in some metaphysical

realm, and dawn towers up like a pantheist revelation. The BBC strings seemed tireless in their exacting parts (as crucial as the finale of Schubert's "Great" C major symphony); the winds were magnificently sonorous and rounded.

So they were too in Nielsen's Fifth Symphony, which concluded the concert with a controlled blaze of balance with Nielsen's very large forces. There was some inspired first-deck playing, and a properly frenzied side-drum (the one who's asked to defeat the rest of the orchestra single-handed - well, double-handed). Above all, the symphonic shape of this remarkable work was made lucid and gripping; the high conflicts of the first movement sharply honed, the later fugues pursued with attentive confidence.

David Murray

Borodin Quartet

WIGMORE HALL

The return of the Borodin Quartet to London, always an event to celebrate, is this time part of a celebration in itself. In a series of seven concerts and a season of films the Wigmore Hall and the Barbican are joining forces to champion the music of Alfred Schnittke. In performances by the Soviet artists - the Borodin, Bashmet, Rostropovich, Kremer - who have supported him for many years.

While he is now firmly established as the most significant Soviet composer since Shostakovich, Schnittke's creative personality remains enigmatic and hard to categorise.

That is partly because of our partial knowledge of his output, at least in the West, and the unevenness of what is known. For he does not avoid the risk of failure or miscalculation if the possible musical advantages are large enough.

This "Celebration of Schnittke" places his music in a context of influences - Mozart, Mahler and Schoenberg as well as a quantity of Shostakovich.

In the Borodin's opening pro-

gramme on Saturday, two of his quartets flanked Schnittke's completion of Mahler's Fifth Quartet (with Leonilda Beninsky as pianist) and his own Third Quartet.

In those two works the Schnittke problem is crystallised, for the Mahler reworking seems a thoroughly empty exercise, if only because Mahler's completed first movement, which was left intact by Shostakovich, is such an unquenchable, rambling piece that the buzzing, chromatically dense scherzo that follows it in this version appears quite out of place.

The Third Quartet is another matter, though that begins with an almost naive use of quotation, marshalling sketches of Liszt, the Grosse Fuge and the DSCA motive to define the diatonic and chromatic areas between which the argument will migrate.

The second movement is a wild, manic waltz-scherzo, a mechanism that runs out of control in what is a familiar Schnittke device.

However, the threads are pulled together quite magically

in the third, when the quotation becomes submerged, the poles move closer until a resolution is achieved in a rich harmonic frame, and the music ebbs away in a sequence of lingering images.

The Borodin managed these closing pages with extraordinary eloquence, weighing every chord, sculpting each phrase, and they delivered the two Shostakovich works with the kind of authority over which they now have sole rights.

Whether in the refined melodic threads of the Seventh Quartet, or the gunshot chords of the Eighth their command was absolute, while their dynamic range - sounds ringing out of nothing and returning in silence in an unbroken arc - seems to become ever more extraordinary.

There is more of the Borodin on Tuesday (including the Schnittke Piano Quintet) if there are any tickets still to be had.

Andrew Clements

Vogler Quartet

WIGMORE HALL

It is a great pleasure to be able to add another voice to the chorus of praise already received on this page by the young East German quartet. Their second on Friday included two "big" works - the Berg Lyric Suite and the Beethoven Op. 130 Quartet, the B flat, given in original form with the Grosse Fuge as finale.

Over both, their combination of technical and intellectual command reigned sovereign: in terms of lucidity, dramatic intensity, and propulsive urgency, these performances showed a mature mastery that was quite breath-taking.

The Vogler Quartet make a splendidly lean, sinewy, athletically muscled sound, exactly in focus. There is no spare fat on the tone of either the leader (Tina Vogler, whose style appears to dictate that of the group as a whole) or the ensemble.

As opener the Schubert Quartet set seemed perhaps even a touch too lean - a counteracting dose of melodic expansiveness might not have come amiss.

But what made the playing so compelling, here and then in Berg and Beethoven, was its

rhythmic drive. Each marking, whether it be a half-staccato or a pattern of semiquavers separated by rests, had apparently been scrutinised for intelligence on keeping up the momentum; the different mood-patterns of the Berg suite were explored with needle-point attention to detail, and at the same time unified by this ceaseless (but never restless or breathless) sense of forward movement.

It was an enthralling performance, no less so the Beethoven, unfolded on a mighty canvas whose coherence and larger purpose were never in the smallest doubt. From other string-quartet groups one might have hankered after an infusion of courtly grace in the G major "German dance" interlude; the Vogler's style was penetrative, pointed, their eye on the final goal. By the end of the Grosse Fuge it had been attained with extraordinary sureness: rare, elating feat! Any quartet group which reaches the peak of this particular mountain range is to be congratulated; the achievement of one so youthful is nothing less than awesome.

Max Loppert

Macbeth

WAREHOUSE THEATRE, CROYDON

Every so often the London Shakespeare Group, which for the past 14 years has been touring the world under the flag of the British Council, returns to a home-base. It is doing that now at Croydon, giving us an opportunity of basking in the audience, which has been brewed specially for export. The company of eight are all true professionals who make light of little local difficulties such as, at this venue, the inability to enter or exit anywhere except to the right of the audience, the obsessive noise of the music from the amusement arcade next door, which fortunately was turned down after the interval.

The text has been slimmed somewhat to meet the requirements of strenuous touring conditions in Scotland, even those of the three weird

sisters, doubled up, and the set reduced to a simple stone obelisk at the centre of the empty stage and a couple of wooden chests which may be moved around as required.

These necessary basics of staging being out of the way, the players who, under the direction of Debra Kidd, give a creditable account of the tragedy, swift and sure in its concentration upon the hero's rapid decline from gallant warrior to murderous tyrant.

Macbeth is played by Frank Barrie, who has also toured in his own one-man show based on the life of Macready. Something of the spirit of the Victorian giant has happily entered into his performance. He speaks the soliloquies with a pleasing variety of inflection, and has truly royal dignity at his coronation in Scotland. His partner, Elizabeth Bell,

does not have the equivalent vocal range; nonetheless she gives an interesting interpretation of Lady Macbeth, revealing her as a woman who is in a condition of continually suppressed hysteria which occasionally breaks through to the surface. Surely, though, in the line "Give me the daggers" the emphasis should be on the word "me".

Gareth Armstrong's Banquo is a beacon of sanity and approach, most effective in his posthumous appearance at the banquet, a thin trickle of blood on his cheek. The proximity in Croydon of host to ghost renders this episode peculiarly chilling. Stephen Trede does well as the self-righteous heir apparent, Malcolm, and Arthur Cox contrasts a doting Duncan with a churchyard First Murderer.

Anthony Curtis

Art Farmer

HAMPSHIRE UCS

It's a long way from Sweet Basil's to Yeovil, but the gentle tones of trumpet maestro Art Farmer are welcome in any setting. Visiting Hampshire UCS, an agreeable school auditorium, seemingly run by the boys, Farmer has just completed a UK tour which includes a number of unlikely provincial venues.

Backed by a local trio on each occasion - John Critchinson on piano, Jeff Cline on double bass, and Spike Wells on drums in London - Farmer's barely rehearsed set sees him swinging through standards, "Bags Groove", "Star Eyes" and "Straight No Chaser" are each given the warm, yet somewhat detached treatment that is characteristic of Farmer's playing.

Based in Vienna for the past 22 years, the 61 year old American developed his individual trumpet style with Horace Silver and Gerry Mulligan and later with guitarist Jim Hall. Ever busy, he has just released a new LP, PhD, and has a live

recording, *Central Avenue Revisited*, in the can. Indeed, he has cut short his visit to the UK this time for film work with the late Cedric Belfrage and Billy Higgins.

For the second part of his London set Farmer returns with flugelhorn and a sensitive rendering of Mal Waldron's "Soul Eyes". Changing to the brighter sound of the trumpet Farmer still manages to sound wistful - against the more urgent backing of his temporary trio - with Fats Navarro's "Nostalgia". Closing with Dizzy Gillespie's "Blue and Boogie", a rousing drum solo is encouraged by swelling notes from Farmer adding some fire to his more familiar warm style.

If you didn't manage to catch him in Yeovil or the Cambridge Farmers' Club, he embarks on a US tour at the end of the month visiting New York, Chicago, San Francisco, Philadelphia and Illinois.

Gary Booth

ENB at the Coliseum

The English National Ballet has announced it is to return to the Coliseum in London this summer for a two-week season from July 16.

The return to the capital is part of the celebrations for the

anniversary of the company's 40th year.

The programme of performances is to consist entirely of British choreography, but more complete details have yet to be announced.

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ARTS GUIDE

MUSIC

London

The London Philharmonic, conducted by Sergiu Baudo, Britten, Rimsky-Korsakov (Fri), Royal Festival Hall (25.8.8000). Academy of St Martin in the Fields, directed by John Brown, Mendelssohn, Beethoven, Schoenberg (Fri), Queen Elizabeth Hall (25.8.8000).

English Chamber Orchestra, conducted by Philip Ledger, with Jack Bryner (clarinet), Lorraine McAlister (violin), Mozart, Pachelbel, Vivaldi (Sat), Royal Festival Hall (25.8.8000).

Paris

Deligite Baudo (piano), Mozart, Beethoven, Schumann (Mon), Chatelet (26.8.8225). Orchestra Colonne conducted by Pierre Dervaux, Michel Seroff (piano), Saint-Saens, Prokofiev, Beethoven (Mon), Salle Pleyel (46.688373).

Orchestra de Paris conducted by Semyon Bychkov, Midori (violin), Maki Hakala (piano), Saint-Saens, Bartok, Brahms (Wed, Thur), Salle Pleyel (46.688373).

Orchestra National de France conducted by Emil Tjekorov, Nelson Fraire (piano), Brahms, Beethoven, Schumann (Thur), Théâtre des Champs Elysees (47.303837).

Amsterdam

Orchestra and Chorus of the Academy of Ancient Music con-

directed by Christopher Hogwood,

with Emma Kirkby (soprano), Anthony Rolfe (bassoon) and Michael George (bass). Haydn's Creation (Fri), Concertgebouw, (718.345). Netherlands Philharmonic with Rian de Waal (piano), Roberto Benzi conducting, Liszt, Debussy (Sat), Concertgebouw, (718.345). Royal Concertgebouw Orchestra conducted by Myung-Wun Chung, with Shura Cherkassky (piano), Tchaikovsky, Shostakovich (Wed, Thur), Concertgebouw, (718.345).

Utrecht

Netherlands Philharmonic Orchestra with Rian de Waal (piano), Roberto Benzi conducting, Liszt, Debussy (Fri, Mon), Vredenburg, (31.45.44).

Netherlands Philharmonic Orchestra led by Istvan Pankovics (violin), Martin, Mozart, Kauris, Haydn, Vredenburg, (31.45.44).

Vienna

The English Concert, conducted by Trevor Pinnock, Vivaldi, Bach, Rameau, Musikverein, (Fri).

Garrick Ohls piano recital, Weber, Beethoven, Konzerthaus, (Mon).

Alexander Jasser piano recital, Debussy, Vogel, Beethoven, Musikverein, (Thurs).

Wiener Symphoniker and State Opera, Choir, conducted by Georges Pretre, Berlioz's Romeo and Juliet, (Wed).

Wiener Philharmoniker conducted by Leonard Bernstein, Mahler, Sibelius, Musikverein, (Thurs).

Brussels

Liege Philharmonic Orchestra, Elio Otera performs works of Richard Strauss, Schreker, Webern, Centre Culturel, la Botanique.

Eve Granbin (violin) Bach, Dvořák, Mendelssohn, Mozart, (Tues), Palais des Beaux-Arts, (718.345).

Milan

Oleg Kagan (violin) and Vassili Lebedev (piano) playing Schumann, Grieg and Shostakovich (Mon), Teatro Alla Scala (809125). Garrick Ohlsson (piano) playing Chopin (Wed), Conservatorio G. Verdi (7550175).

Rome

Christa Ludwig (mezzo-soprano) and Charles Spencer (piano) singing Schubert, Brahms, Liszt, Mahler and Strauss (Wed) Teatro Olimpico (893904).

Florence

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FINANCIAL TIMES

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Monday February 19 1990

Japan after the elections

THE RETURN of the Liberal Democratic Party to power in tolerable working order demonstrates that change in Japan is not going to be politically led. This may disappoint the rest of the world, especially the US in its current mood, but it is a reality that has to be accepted. Japan is, after all, a sovereign country.

The LDP won the election because of the perceived lack of realistic choices. The orgy of self-inflicted wounds of the last two years, for which it was properly chastised in last summer's Upper House elections, paled into insignificance in the main event on Sunday against the inadequacies of the alternatives. The Japanese may be changing, but they still know on which side their political bread is buttered.

This means that the politics of Japan will continue to be dominated by a conservative, mostly insular, business-oriented party. There are signs that younger LDP MPs are becoming more interested in policy substance than purely retaining power, but it would be an exaggeration to say that some kind of revolution in attitude is in the offing. (An early test will be on economic policy: fiscal policy may be paralysed with the upper and lower houses in different hands, as in the US, leaving monetary policy as the only lever.)

Mr Toshiki Kaifu may or may not survive as Prime Minister. But even if he goes, the mould will not be broken. In any case, too much importance is invested in the identity of the chief office-holder. It may be lamented if the baton passes to the person of Mr Shinzo Abe, but in Japan more than in most places politicians mostly play only an assigned role.

Leadership quality

In an age when the quality of individual political leadership - Gorbachev, Thatcher, Wales, now Mandela - has made such a difference, Japan remains something of an anachronism. But it is worth remembering that it has often not conformed to western standards. It is not worth noting that it must have energetic political leadership.

Nevertheless, it is widely perceived that Japan's

immensely powerful economic role still lacks a political dimension that would make it a full partner. This is particularly frustrating for the US, where public and political opinion is progressively identifying economic Japan as the main threat now that the Soviet Union's military menace has rapidly declined.

Misplaced obsession

This US obsession with Japan is misplaced. But it is going to be, in the immediate future, as much of a political reality for Japan to handle as Japan's own political realism is for the US. Japan may argue, perfectly correctly, that it has done all the US wanted in financing the US deficit, stimulating its own economy and, now, in reducing the size of its trade surplus, but this will still cut insufficient ice if prime American commodities, like Rockefeller Plaza and Columbia Pictures, continue to fall like ripe plums into Japanese hands.

What Japan should do to combat this - and any parallel emerging sentiments in Europe - is to pursue a sophisticated, multi-faceted external foreign and economic policy less hung up on the relationship with the US. It should settle its outstanding problem with the Soviet Union; it should support, but not be seen to support, narrow commercial benefits, the reconstruction of eastern Europe; it should be more active in the multilateral financial institutions; it should develop its international philanthropy; it should continue actively to be engaged in the development of Asia. In short, it must live up to its international obligations - and it can no longer plead political paralysis as an excuse for not doing so.

Such a broad-spectrum engagement, which means the making of new friends and different ties with old ones, might in time negate the perception of Japan as a different, even a hostile, power. It would also recognise the reality of Japan as a major force. In return, the US and others must accept, first, that the election result in Japan is basically reassuring to their interests and, second and more vitally, that Japan is not only represented by its political system.

Engineers under attack

BY REJECTING a 37-hour working week in return for changes in working practices, strikers at British Aerospace's plant in Preston have brought the engineering unions' long drawn out campaign for a shorter working week to a critical stage. If the group retreats from its insistence on extensive changes in working practices, smaller companies that are next in the firing line will be seriously exposed.

Engineering companies are for the moment weathering rising labour costs and slowing output better than most other sectors. Smiths Industries, one of the first companies to concede a shorter working week after being hit by a strike, announced a 15 per cent rise in profits in November.

But most of the 30 shorter working hours deals which have been concluded so far allow for time reductions to be phased in during the next two years. Over that period, cost pressures are almost certain to increase. The unions have enthused most about those deals which are vaguest about productivity gains in the future, and BAE's unpopularity suggests that it is taking more account than its competitors of cyclical swings over the longer term.

The unions have objected to conceding new working patterns, and to changes in job content in return for shorter hours. For its part, BAE has proposed a four-shift working pattern at Preston as well as more self-inspection by craft workers. These changes would hold out the promise of real productivity improvements.

Campaign impasse

The vote by workers at Preston means the unions' campaign has now reached an impasse. Funds for the strike pay that has enabled BAE workers to remain on strike with some equanimity have been sapped by the campaign's length and the company's determination. Despite fierce noises, the unions have not yet opened a second front in other large engineering groups.

Yet the unions have been more successful than many employers had anticipated ahead of the event. They have secured a 37-hour week for

some manual workers who had been offered only a 37½-hour week in previous national negotiations. They have also sustained a lengthy campaign without a significant return to work by BAE workers, who are now in buoyant mood.

There is something to be salvaged from this general industrial story. One comfort is that the strikes have broken up national joint bargaining in the engineering industry. The annual wage talks between the Engineering Employers' Federation and the Confederation of Shipbuilding and Engineering Unions have disappeared, after growing increasingly anachronistic.

Loss mourned

This loss may be mourned by some small companies. But it should concentrate their minds on the pay rises more closely to productivity in local talks. It will also be mourned by the unions, which rejected a 37½-hour week because the employers wanted hours cuts phased in with local productivity rises. The end of national talks presents them with a first opportunity.

A second comfort is that some companies have used the pressure for shorter working hours to reach deals giving significant productivity improvements. If the unions' campaign triggers a wider re-appraisal of patterns of working time and the efficient use of equipment, its damaging effects will be at least partly offset.

The overall lesson is that the campaign has derived much of its strength from the shortage of skilled workers. The continuing dispute at Ford Motor Company involving disgruntled craftsmen and electricians is further evidence that companies are now paying a heavy price for not training enough people. Skilled workers are exploiting their labour market power.

If another reminder was needed of the economic necessity for Britain of better training arrangements, it has been provided by the campaign for shorter working hours. The reluctance of many companies to train workers has put great leverage in the hands of skilled employees. It is not surprising that they are using it.

Power-politics is in vogue at London's International Stock Exchange. Not that the Exchange is unused to political processes - one of the main things holding it together is its byzantine structure based around 90-odd committees and the arterial network through which power and influence pulse like blood.

But what is now emerging is of a different order from the small change of daily political life. In short, the Exchange's single most powerful committee appears to be out to stampee the powers that be into a strategy for the next decade.

At issue is London's role in the European equity markets. With the UK securities industry bleeding from overcapacity in its domestic market, the proposals being put forward amount to nothing less than an attempt to rebuild a strong London base and, from there, develop a toehold in the expanding equity markets on the continent.

The architect of this is Mr Nigel Elwes, the chain-smoking finance director of Warburg Securities who operates from a cramped box of an office deep in the heart of the firm's Broadgate residence. Mr Elwes's flat, the Domestic Equity Market Committee (DEMC), includes representatives of some of the City's major investment houses, among them James Capel, Barclays de Zoete Wedd, Smith New Court, Kleinwort Benson, Morgan Stanley, County NatWest and UBS Phillips Drew. Coming from such a base, the committee's views are likely to carry considerable clout when the Exchange's governing council gathers to consider them on March 3.

The committee begins from a simple premise: the Exchange exists for the sake of its members, but has become in many respects irrelevant to them. The penalty for irrelevance is clear - fragmentation of the central equity market, leading eventually to a withering away of the Exchange.

Unlike the pre-Big Bang days, when business was done on the market floor, members no longer have monopoly access to the market's price makers. Formerly known as jobbers, with quotations and prices at which trades have been done now publicly available, the role of the market's intermediaries (brokers) has been undermined.

Also, under the Financial Services Act, a new body - The Securities Association - has taken over the control of securities firms' conduct of business and capital adequacy. The Elwes report notes, customers no longer need "to look solely to the Exchange for fair play," and securities dealers do not need to join the Exchange.

Alongside these structural changes, and the arrival at the Exchange of international houses, loyalty to the old ways has disintegrated. The report concludes that there are now just two benefits to being a Stock Exchange member: the ability to trade in a regulated market with a market maker at a quoted price, and the ability to settle business through the Exchange. The fact that London's paper-based settlement system is one of the most out-dated around underlines at least one of these "benefits".

Mr Peter Rawlin, the Exchange's newly-appointed secretary, is well aware of these problems and has been working towards a strategy himself, which is due to be made public before Easter. Should he have any doubts, the Elwes committee has now pushed three ideas under his nose for consideration.

Together, they represent a grand vision of a London-based exchange dominating Europe for the greater glory and profit of its members. Whether they are technically - let alone politically - achievable is something the authorities will no doubt be pondering at this moment. But above the general murmur of dis-

King's call to the Bank

By appointing Professor Mervyn King, Professor of Economics at the London School of Economics, one of its 12 non-executive directors, the Bank of England will be able to draw on the talents of one of the few academic economists in Britain to straddle successfully the worlds of economics and finance.

King is a youthful looking 41-year-old who has taught in both the US and the UK. He is co-director of the LSE's Financial Markets Group and has written books on finance, taxation and corporate behaviour.

Until recently, he was also an independent director of The Securities Association, one of the self-regulating organisations set up to police the City under the Financial Services Act.

King will be a Bank director from March 1. The Bank's gain is the Treasury's loss. He was a member of the Group of Outside Economists that gave unofficial advice to Nigel Lawson, the former Chancellor, and is credited with considerable influence on some of the technical tax changes introduced in the last budget. However, this group - known rather unkindly as the Gooseys - has been wound up since John Major moved into Number 11 Downing Street.

The summons to the Bank came out of the blue on a scribbled note delivered in the middle of a lecture at the LSE. It was only when King met the Bank Governor, Robin Leigh-Pemberton, the following day that he was told of the appointment.

American aid

Curiously, Americans seem to be taking over Media 92, the French-inspired EC project designed to promote European film-making and to limit the number of Hollywood shows

Richard Waters reports on a radical proposal for the future of London's International Stock Exchange

Making the stock market relevant to its members

approval emanating from the Stock Exchange tower, phrases like "half-baked" and "politically naive" are already clearly audible.

In true Stock Exchange style, it is a committee of a committee - which is behind the proto-strategy. The DEMC spawned a sub-group at the end of 1988 to grapple with what at the time appeared to be serious weaknesses in the competing market-maker system introduced at the time of Big Bang two years before.

It is worth recalling the chequered history of London's price quotation system, *Seag* (Stock Exchange Automatic Quotation), which provides the basic infrastructure for the market. The crash of 1987, and subsequent lacklustre market conditions, had prompted a fierce price war. *Seag* appeared to be seizing up as some market makers reduced the size of bargains they were prepared to undertake at quoted prices, withdrawing their liquidity from the central market.

The Exchange was panicked into immediate remedial action: at the suggestion of Mr Elwes's sub-committee, market makers were excused the obligation to deal with one another at quoted prices, and transactions worth more than £100,000 were no longer published to the market as soon as

The proposals represent a grand vision of a London-based exchange dominating Europe for its members' benefit

they occurred. This gave the market a breather, but was a clear retreat from the Big Bang ideals.

It is against this background that the Elwes group has now come up with a complex series of proposed alterations to the way business is conducted on the Exchange. Its 13 recommendations read like a mechanic's description of a 10,000-mile service for a car, and are about as interesting to the general reader.

Spurred by this technical blueprint is a strategy paper which goes far beyond the Elwes committee's brief and which challenges the Exchange's ruling council - and, indirectly, its chairman and chief executive - in a startling way. The paper, which is likely to be detached before a sanitised version of the Elwes report is published next month, lays out three-point strategy which is significant places runs counter to the strategy expressed publicly by the chairman, Mr Andrew Hugh Smith.

The Elwes plan has three legs: ● The Exchange should develop a single systems interface with all its

member firms. According to the Elwes report, firms currently believe that "the Exchange's systems are in places outdated, unnecessarily complex, duplicative and costly, and that such access mechanisms as do exist between firms and the Exchange do not provide satisfactory links to the full range of market services."

Unless these problems are overcome, firms will seek other ways of executing and settling bargains, to the detriment of the Exchange.

The answer is a single electronic "gateway" to the market, through which firms would be able to obtain prices, deal, confirm and settle bargains. This so-called *Markets Access Service* would deliver the whole array of Exchange products, from the news service, *Topic*, through to the yet-to-be-developed *Taurus* automated settlement system.

The effect would be to tie the Exchange and its members together in an on-line system. The idea is sound in theory, but given the likely source of the problem, the firms are likely to be grappling for some time with major systems developments related to *Taurus*, it could prove hopelessly idealistic.

Critics also claim that it is out of touch with the way business is done in London, and is more suited to a small provincial broker looking for a complete package of services from one source than an international trading house dealing in a range of clearing services, quote vendors, news services and the like.

● The benefits of membership of the Exchange should be enhanced. The committee suggests four ways of reversing the shrinking value of membership, besides the development of the *Markets Access Service*.

The first, and most fundamental, step is to make sure the market is "as efficient and cost effective as possible so that alternative markets will always be less attractive." A major element of this involves developing the *Taurus* settlement system - something which Mr Hugh Smith said earlier this year was his first priority. Elwes warns that the Exchange should "retain an adequate control of the settlement of its members' firms' bargains" - an outright difference of opinion with Mr Hugh Smith, who has already said that the Exchange will retain only a (substantial) minority holding in the City's planned independent clearing house.

The second recommendation is more radical: the Exchange should "in due course" be able to guarantee all business executed through it. Instead, this would mean that a member firm's bargains, and hence its knowledge when dealing through the Exchange that they would not suffer loss in the event of the insolvency of the other party - a strong selling

THE ELWES VISION

- Seamless delivery of services
- Single interface between the Exchange and its member firms: *Markets Access Service*.
- Firms could obtain price information, deal, confirm and settle bargains through one channel.
- International expansion
- Independent quote vendors would carry *SEAG* prices throughout Europe.
- European offices of UK-based firms should have access to London.
- Access also for category of "off-shore" members.
- Adding value to membership
- Efficient new settlements system.
- Compensation fund for retail clients.
- Stock Exchange guarantee that all bargains, once entered into, will be settled.

point for the market.

The third step to adding value to membership would be the creation of a compensation fund for retail clients. And the fourth step is to reinforce the Exchange's rules governing the way business is done, and tightening up the disciplinary process when these rules are broken. This reflects a concern among some large firms that the Exchange is simply not tough enough on malefactors.

In addition to these developments, the Elwes committee argues for a fundamental shift in power at the Exchange. Each of the four market committees, it says, should have overall responsibility "for determining their services, operations and developments and for control of their costs, and their revenues." This would include responsibility for market rules and regulations, especially those governing market supervision and discipline.

This would amount to an unbundling of the Exchange, with the large central divisions being broken up and handed over piecemeal to the practitioners; in short, the death of the old Exchange bureaucracy, and the emergence of what is claimed to be a market-led organisation. This radical idea is roughly in line with views expressed in the past by Mr Rawlin, the chief executive - although there are likely to be disagreements about the extent of central control over the way the markets are run.

● The third leg of the Elwes strategy is the one that runs directly into conflict with the views of the Exchange authorities. The committee says the Exchange should break off discussions with other European exchanges about the setting up of a continent-wide "Euromarket" or "Common European List" of major stocks, and instead adopt a policy of domination. The Exchange itself has been dithering on this issue. It is aware on one hand that in *Seag* International, its international equity price quotation system, it has a market-leader

with which it might be able to dominate the European equity business. There are those at the market arguing that it should not squander this competitive advantage - particularly since other European exchanges are developing rapidly, and competition is also threatened from across the Atlantic in the shape of the Washington-based Nasdaq electronic market.

On the other hand, it realises that to attempt to do so would antagonise the authorities of the awakening equity markets in Paris and, particularly, Frankfurt. While the UK may have a historic advantage, there is no reason to assume that it will act as the major channel for capital flowing into European equities in the future. Outright competition may not be in London's best long-term interest.

The Elwes recommendation is to take the London market aggressively to the continent. This would be done through three channels: independent quote vendors would carry *Seag* prices; the overseas offices of member firms would be able to plug into the market through the *Markets Access Service*; and a new category of "off-shore" member would be created to draw firms based outside the UK into the market's net.

This, in the words of one Exchange executive, is "half-baked". The fact that the idea has been put forward by a group of people grounded in the domestic UK market with no involvement in international developments is likely to make it particularly galling to the authorities - as is the fact that it has emerged in public, while the Exchange is developing its own European strategy behind closed doors.

How it tackles the delicate task of defusing this proposal is something that will be occupying the minds of the Exchange's senior executives over the coming weeks. But one thing is clear at this stage: the Exchange has no intention of bowing down before a committee, even of its most powerful members.

OBSERVER



"It could end up as the world's longest underground seaside pier."

But on trying to pay with D-Marks, worth several times the value of the East Mark, our man was told this was not possible. "We are not allowed to take them," said the young lady in the museum with no hint of regret.

This must be one of the last outposts of the old East German orthodoxy, in the big hotels the rule is one-for-one. Our correspondent had to pay DM150 (55) for a tiny, noisy, dismal single room with a panoramic view across the main motorway and tramway to an outlying mass of apartment blocks and smoking chimneys. In local currency, that is worth at least 450 East German Marks.

East Germany's Interhotel chain, soon to link up with a successful West German hotel company, does not accept East German Marks at all.

Oldham fans

We had hoped to start tipping the Oldham Athletic football team for higher things some weeks ago. But we were

unable to find someone who was born in Oldham and who follows the team from afar with the devotion that (say) Roy Battersley gives to Sheffield Wednesday or Sir Terence Burns of the Treasury to QPR. Now we have, or almost.

Ian Strachan is the finance director of RTZ. His brother, Neil, is the chairman of Confor International, a company that organises medical conferences. It is not quite true that they go to every match. "I'm been abroad a lot of his life," says Neil. And even Neil has not been to a game for some time. But the Oldham result is still the first one they look for when the scores come in. They have had the Oldham Evening Chronicle sent abroad to them, when necessary, so that they can keep in touch with how the team is doing.

Neil says that he started anticipating this season's string of successes about two years ago, when it looked as if Joe Royle, the manager, had begun to get the club in order. It has been a long wait. Oldham were only once in the semi-final of the FA Cup, and that was in 1913. They were runners-up in the First Division the following season. That was about it. Subsequent highlights were a 10-1 defeat of Lytham in the first round of the FA Cup in 1925 and an 11-0 trouncing of Southampton in the Fourth Division in 1932.

This year Oldham should be in at least one cup final, could be in another and will probably reach the First Division. Maybe some other old fans will emerge. It is not true that the club only does well on its home plastic pitch, as anyone who saw them play at Southampton will testify.

Packed

An exhibition to look forward to: *Sardine Tin Labels* from Norway in London in May. Apparently they were very popular at the turn of the century and collected by Norwegian children as other people collected cigarette cards.

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The Japanese have been accused of buying the best American real estate, invading Hollywood and selectively destroying the US computer industry. Now the "Japan-bashers" have come up with the ultimate charge: influence peddling in Washington DC.

In a recent article in the New Republic, Mr. John Judis reported that Japanese agencies and companies have hired more than 110 former US Government officials, including three former US Trade Representatives, to put their case to the White House and Congress. Total Japanese spending last year on these hired guns could be as high as \$100m, the author said.

"In think-tanks, universities, corporations and Washington law offices, Japanese money is reinforcing one side of the debate on trade, industry and America's future," the article concluded, "and creating a subtle climate of corruption."

The surprise is that these charges have taken so long to surface.

In 1987, when it was discovered that a Toshiba Corporation subsidiary had sold sophisticated submarine propeller technology to the Soviet Union, the Senate voted 92-5 to ban Toshiba sales in the US for three years. An army of Washington lobbyists marched to Capitol Hill, pleaded clemency and came back with a much-reduced sentence.

In 1988, the Japanese helped to kill the Bryant amendment which would have required greater disclosure of foreign investment in the US.

When Japanese companies last year faced the threat of retaliation under the "Super 301" provision of the 1988 Omnibus Trade Act, the Japan lobby joined forces with free-traders in the administration and persuaded President Bush not to cite Japan for blocking US sales of semiconductors.

There is, however, less to these revelations than meets the eye. The Japanese rarely act alone; they usually seek out influential allies. The British strengthened their forces to defeat the Bryant amendment. Furthermore, Japan's investment in the US in the 1980s has created powerful indigenous constituencies willing to mobilise on Tokyo's behalf. These groups range from car plant workers to US computer firms which depend on a supply of Japanese disc drives, printers and other parts.

Above all, competition for influence is inherent in the US political system, and it usually revolves around money. If Japanese companies have a lot

Lionel Barber finds Japanese business staking a claim on the US Government

Winning foes and influencing people

of influence," said one Japanese embassy official, "many American companies and foreign companies have similar influence."

These truths seem self-evident when one looks at the many Washington law firms and political consulting practices engaged in the highly profitable business of trying to influence the US Government.

One such law firm is Akin, Gump, Strauss, Hauer and Feld — a business built up by Mr. Robert Strauss. He is a former treasurer and chairman of the Democratic Party, a former US Trade Representative, and now, aged 71, still one of the most influential men behind the scenes in the capital.

Mr. Strauss is a peculiarly Washington phenomenon. Born of a modest Jewish family in Lockhart, central Texas, he first rose to prominence in the early 1960s as a protégé of Texas Governor John Connally.

Mr. Strauss's skill was raising money. Possessed of a silky charm and an earthy wit, he endeared himself to cash-hungry Democrat politicians who rewarded him with the chairmanship of the party. By the mid-1970s, his network made him one of the best-connected men in town. He became known as "Mr. Democrat."

As the consummate insider, Mr. Strauss was an attractive commodity during the Carter administration, which had more than his share of outsiders, mostly novices from the President's home state of Georgia. Mr. Strauss was in constant demand as US Trade Representative, special Middle East peace negotiator and briefly as the President's chief adviser on inflation. When he returned to private practice in 1981, he was well-placed to capitalise on his contacts.

In 1978, Mr. Strauss recalls, the firm employed barely half a dozen lawyers in Washington. Today, it employs more than 600 (although some of these also work in Dallas and the rapidly expanding Brussels office). The increase is a direct result of the growth of the Federal Government, Congress and support staff. In an age when more than 100 commi-



Mr Robert Strauss: lobbyist with charm and earthy wit

tees and sub-committees can claim an interest in the Pentagon or a foreign aid bill, Akin Gump's message is that it can monitor and influence the intricate US legislative process.

Its client list includes Sir James Goldsmith, who hired the law firm during his Hovland consortium bid for BAT Industries, and Mr. Rupert Murdoch's News America. Congress has been hostile to both.

Daniel Burnham Lambert, RJR Nabisco and the National Football League have also been clients. So was the Chinese Government at one time ("a personal thing I had with Deng Xiaoping," explains Mr. Strauss, "it's been dropped now").

The biggest foreign earner, however, is Fujitsu, the Japanese computer manufacturer, which became a client in 1986, shortly before it launched an ill-fated bid to acquire Fairchild, the US semiconductor manufacturer.

Fujitsu withdrew after an outcry about the potential loss of a strategic US high-technology company to a Japanese competitor. The Japanese admitted later to being surprised by the reaction — and they vowed to do their political homework the next time.

They appear to have kept their word. Between December 1986 and December 1987, Fujitsu paid almost \$1m for "political activities" (lobbying and public relations) carried out by Mr. Strauss's firm. Between July and December 1988, it paid \$350,000 to lobby against the Bryant and the Eron-Florida amendments to the Trade Bill, both of which aimed to tighten scrutiny of foreign investment in the US.

In the six months to June 1989, Fujitsu and subsidiaries paid almost \$600,000 in fees to ensure that they were not targeted under the Super 301 legislation, according to filings at the Justice Department's Foreign Agents Registration Office in Washington.

Mr. Strauss defends Fujitsu's right to seek the best advice in influence legislation in the US. "If every mayor, every chamber of commerce, and every state governor is going to Japan and is begging, urging, bribing them with free tax benefits to build plants, buy real estate... then you have to expect that in an open society like [the Japanese] want to be

heard in respect of the laws that affect them."

Yet Akin Gump does more than litigate and lobby on behalf of its domestic and foreign clients. Like most other law firms in Washington it also funnels large sums of money to politicians seeking office. More often than not, these are incumbent Democrats and Republicans in Congress who are standing for re-election. "I am," says Mr. Strauss, "economical in my choice of friends."

According to records filed over the past three years, Akin Gump has peppered dozens of Congressional candidates with contributions ranging from \$200 to \$2,000. One regular beneficiary is Senator Lloyd Bentsen of Texas, an old ally of Mr. Strauss. Senator Bentsen is chairman of the Senate Finance committee — the key tax-writing body in the upper chamber — a position of vital interest to corporate clients.

Mr. Strauss does not apologise for his firm's political contributions. "We have a major legislative section, and the way the process works in this town, in this country, is that you participate in political campaigns and political pocket-book issues."

Participation, according to Mr. Strauss, does not buy votes. If Akin Gump halved its contributions, he says, "nothing would happen." So why not do it? "Because it would hurt people's feelings," he says.

Mr. Strauss says he has long given up fund-raising and he has never directly sought a legislative favour from a Congressman or a senator to whom he has given money. Nevertheless, he admits to being uneasy about the system and says he supports campaign finance reform — either by rationing candidates' access to TV advertising or through the public funding of campaigns. "We need reform before there is a serious scandal."

This is an unusual piece of Texas understatement. In the past 12 months, the Speaker of the House of Representatives and the House majority whip, as well as several Congressmen have been undone by ethics scandals involving money and campaign funds. In the upper chamber, seven senators are under investigation by the Ethics Committee.

There is no question that Japanese agencies and companies are spending a lot of money in their search for influence — and affection. It remains to be seen just how effective the effort is. In the meantime, it seems unfair to accuse them of corrupting the process. They are, after all, only playing by the rules.

UK investment

A pattern biased against trade?

By John Muellbauer

There has been much debate over whether the UK trade deficit in recent years reflects a consumption-led boom or an investment-led boom. The optimistic Treasury view favouring investment has been ably argued by Samuel Brittan and opposed by, among others, Garry Davies in his Select Committee evidence. Our own marshalling of the evidence tends to support the latter.

However, little attention has been paid to the composition of investment. The evidence I review here suggests that, with few exceptions, investment has grown more in the sectors in the economy which are more sheltered from international competition and which make a smaller contribution to the balance of payments.

A sector which exports or imports a high proportion of its final sales is, in an obvious sense, likely to be open to international trade. The table shows sectoral tradability coefficients — defined as the ratio of exports or imports to sales, whichever is greater. A dagger indicates sectors where the import/sales ratio is greater. (Ratios drawn from the 1985 input-output table in the Blue Book; the 1985 import penetration ratios in the Monthly Digest of Statistics; and other official sources.)

Generally speaking, manufacturing industries and the oil industry are very open while the rest of the economy, with the exception of transport, is relatively closed. For example, banking, insurance and business services have a tradability coefficient of 0.10 compared with 0.35 in chemicals and man-made fibres. This is not surprising given that building societies, estate agents and retail banks are little involved with overseas business through, of course, the City is quite open to international trade in financial services.

The final column of the table shows the ratio of gross domestic fixed capital formation in 1987 (the latest published year) relative to 1979. 1979 is the obvious benchmark — marking the last year of Labour government and being a year, like 1967, when the level of economic activity was high. These figures are in current prices but since comparisons are made across sectors this is a reasonable measure of the resource cost. On average, prices increased by about 60 per cent between 1979 and 1987 so that real investment was lower in most sectors in 1987 than in 1979. The three most striking exceptions are banking, insurance and business services; communications; and distribution, hotels, etc. in that order. These are all sectors with low tradability coefficients. This illustrates what is, in fact, a statistically significant tendency across the 25 sectors for investment growth to be negatively related to the degree of openness.

Across manufacturing sectors alone, the relationship is still negative although not statistically significant. Within manufacturing, the sector which fits least well is other transport equipment, which is dominated by aerospace. This is one of the most open sectors in the economy and yet it has had a relatively high rate of growth in investment. Explaining why this sector is such an unusual success story is complicated. But one should note that government support has been considerable over the years both in the launch aid for the European Airbus project, in direct support both in sales

and research and development derived from Ministry of Defence contracts and in enthusiastic support at the highest levels in the Government for overseas contracts.

The other big exception is paper, printing and publishing. The rise in investment there is partly due to national newspapers moving out from Fleet Street, the spread of free newspapers and the demand for printed material from the growth of financial services.

The common element in the explanation of the investment boom here, as in banking, insurance and business services, communications, and distribution and hotels, is the UK boom in finance, credit and consumption. This has not been helpful to the UK's long run trading performance or its ability to sustain strong growth in living standards. The facts about the sectoral composition of investment revealed here raise severe questions about the complacent Treasury view of the UK balance of payments problem.

The distortions in past UK investment are now reflected in overcapacity in the City, among estate agents and building societies — and, dare one say it, among banks. The tragedy is that the Government's reliance on high interest rates to control the balance of payments in the short term is damaging the future trading performance of some of the most open sectors in the economy, such as textiles.

1 Key Aspects of the UK Current Account Problem, Goldman Sachs, 19 Dec 1989.

2 How Fundamental are the UK's Balance of Payments Problems? (with Anthony Murphy) presented at the workshop "The UK Economy 2000: Innovation, Investment and Survival," London, 25 January 1990.

The author is a fellow of Nuffield College, Oxford.

Sectoral Tradability and Investment Growth		
Sector	Tradability	Cap formation
Food & drink	0.09†	1.00
Extraction: mineral oil & gas	0.45	1.08
Mineral oil processing	0.25	0.81
Other energy & water supply	0.01	2.00
Metals	0.27	1.34
Other minerals & metal products	0.19†	1.53
Chemicals & man-made fibres	0.35	1.43
Metals goods: cast	0.16†	1.19
Mechanical engineering	0.27	1.22
Transport & transport equip	0.38†	2.01
Motor vehicles & parts	0.39†	0.91
Other transport equipment	0.34	2.21
Textiles, dress & haberdashery	0.17†	1.59
Textiles	0.21	1.62
Clothing: footwear & leather	0.32†	1.53
Timber & wooden furniture	0.39†	1.53
Paper, printing & publishing	0.19	2.28
Other & plastics	0.22†	2.11
Other manufacturing	0.25	0.90
Construction	0.01	1.25
Distribution, hotels, etc	0.11	2.39
Transport	0.21	1.21
Communications	0.02	2.52
Banking, etc	0.10	2.35

† Indicates in the greater of exports/imports or imports/exports. Figures for 1987. Figures for 1979, both at current prices.

1 Includes sectors where import/export ratio is greater than 1.0.

Source: 1989 Blue Book, Monthly Digest of Statistics etc.

LETTERS

Inflation control and the wage-copying process

From Mr Andrew Jones

Sir, Professor Richard Layard (Letters, February 14) is quite right in saying that one of the causes of inflation is the copying, in areas of rising productivity, of pay increases in areas of faster rising productivity.

It is a pity, however, that, writing as an economist, he should ascribe this copying to "competition." Do paramedics and Ford craftsmen really compete with one another? I doubt it, except possibly over a

period of years of undefined length.

In the immediate term they are citizens of equal political worth. The pay increase, and conceivably the pay level, which one receives is decided by the other. The resulting copying process is therefore a social and political, as well as an economic, phenomenon.

In the secular and acquisitive society in which we live what is required in these circumstances is a device which might bring home to one group

of pay settlers the implications of its action for other pay settlers and therefore for the community in general.

The position of the Confederation of British Industry, namely, that each group is regarded as a privacy unto itself, fails to meet this requirement. So does the Government's policy of holding down pay in the public sector.

Sooner or later, the copying process will ensure that pay increases even in a minimalist public sector will catch up

with and momentarily perhaps exceed those in the private sector, intensifying the problem of wage, and, by extension for the reasons stated by Professor Layard, price inflation. The control over inflation exercised by a non-interventionist government, as would be that also of an independent central bank, is thus limited.

Andrew Jones, 120 Limer Lane, Felpham, Bognor Regis, West Sussex

Bonn alone

From Mr Roger Fox

Sir, Perhaps it is as well that the UK is not yet a member of the European exchange rate mechanism (ERM) if the currency union between West and East Germany is going to upset it ("A currency for Mr Kohl," February 12).

Advocates of a European monetary system have stressed the need for the UK to take part in decision making as further steps towards monetary union are taken. But we now find it is possible for West Germany to take unilateral decisions which will affect other members of the ERM.

You have rightly outlined the danger of this impact which could also rebound upon our own economy.

If East Germany is to be granted special favours it will be difficult to argue against repetition when other countries seek similar treatment.

Roger Fox, Thames Polytechnic, Wellington Street, SE18

A respite for the 'new boys'

From Mr J.G.R. Riz

Sir, While some commentators continue to believe in even higher interest rates as a "cure all" for the UK's economic ills, can we hope that the absence of repeated assurances that this is so from Mr Major means that some doubts are dawning?

It is an extremely blunt instrument where the marginal short-term benefits are far outweighed by the long-term disadvantages. A more balanced view would take into account several factors:

• For all interest paid there is a recipient who is better off as rates rise — increasing spending power.

• Worst hit are the "new boys" to the property market in the last three years, ending up with those sucked in by Mr Lawson's four-month double relief window. They have the highest mortgages proportional to value and as a class are the least likely to be the purchasers of luxury imported goods.

• The virtual shut-off of new

house buying by high rates is selectively disruptive to the UK as a high proportion of the labour, materials and manufacturing in houses is UK-derived.

• Overall British industry is hit by reduced volumes so unit costs go up disproportionately. It is these volumes that are at the root of our competitive ability or inability, and the lack of a steady build-up through years of stop-go is the fundamental cause of our industrial decline.

Only if Mr Major has a better perception of the consequences of his actions than many of his predecessors has the UK a chance of getting the long-term economy right. He might take the view that a lower exchange rate produces lower real wages on an international basis, lower interest rates produce lower costs, and high manufacturing volume tends to lower unit overhead costs.

J.G.R. Riz, Woodhouse, Headley, Hampshire

Insider cult

From Mr Paul Charle

Sir, Barry Riley ("Locking out the insider cheats," February 3) suggests that institutionalised insider dealing and tampering ahead of new issues is acceptable only in Japanese society. Have we forgotten the use of short-term interest rate policy to adjust the gilt market ahead of the sale of each tranche of stock when the public sector borrowing requirement (PSBR) was funded regularly in that market?

By contrast insider dealing may benefit the few, but at what real cost to the many? If its persecution flattens the performance of some stocks, investors as a whole may even be worse off. It has become a cult like investor protection and who gains from that — the legal profession rather than the average investor, whose activities are made more complex and costly.

Paul A. Charle, 10 Thimble Rise, Bromley, Kent

Why the US has a headache over escalating health-care costs

From Mr Michael Allen

Sir, Patrick Cockburn's report on the escalating cost of medical care for US employers ("Employers in US suffer headache," February 6) neglects the non-corporate victims of the US health-care crisis.

Around 37m US citizens lack any form of health insurance. Of these, 10.8m are full-time employees and 7.6m part-time employees, mostly in the growing service sector. For those lucky enough to be covered, medical care is burning bigger holes in their pay packets.

Health insurance premiums rose by an average of 15 per cent a year during the 1980s. But despite union support for

cost containment programmes, employers are now seeking to shift the burden of costs on to medical care for US employees. Over two thirds of large and medium-sized companies have introduced cost-sharing schemes for family plans.

According to the Bureau of Labour Statistics, medical costs already average 12 per cent of post-tax income for low-income households and 8 per cent for medium-income households. The percentage of comprehensive plans requiring un subsidised workers to share premium costs leapt from 19 per cent in 1986 to 28 per cent last year.

A recent survey of employers' bargaining objectives

reveals that a third of companies negotiating contract renewals this year want to eliminate or severely reduce health insurance provisions. Such moves have already provoked industrial conflict as in the Pittsburgh coal strike and last year's communication workers' dispute at AT&T.

The real culprits appear to be the insurance companies, which have consistently and arbitrarily raised premiums, and the "for-profit" private hospital chains which routinely price drugs to yield profit margins of up to 60 per cent (compared to 20 per cent margins in public and community hospitals). While the aver-

age US company earns an average 12 per cent return on equity according to Forbes magazine, the major health care companies earned between 45-45 per cent for the five-year period ending in 1987.

Ford's insurance premiums add \$311 to the cost of a car in the US compared to only \$50 in Canada which introduced a national health service in 1966. Will the new international order make it possible to divert resources to a US public health service to the benefit of both employers and employees? Michael Allen, Industrial Relations Services, Eclipse Publications Ltd, 18-20 Highgate Place, N5

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FINANCIAL TIMES COMPANIES & MARKETS

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INSIDE

Big Mack hits troubled times

Mack Trucks has taken a beating. A deep sales slump and extraordinary charges have resulted in a far bigger loss for the fourth quarter and year than Wall Street had expected; and hopes are not high for 1990, given the weakness of the US truck market. To help improve its finances, Mack has agreed a deal in principle with Renault, the French motor group which has a 45 per cent stake in it, for a \$50m convertible subordinated loan. Roderick Oram reports. Page 21

Perilous perch on the mezzanine

The demise of Drexel Burnham Lambert has cast a dark shadow over European finance - at least as far as mezzanine loans are concerned. This and the high-profile problems of some big debt-financed UK buy-outs have severely damaged the market in the thickly under-developed European equivalent of the junk bond market. Page 29

Governments have it taped

It is not surprising that central governments are aiming for "open" or industry standard computer systems because these are the items which eventually take a lesser financial toll on users. In this, governments set an example which commercial companies have been slow to follow. But that old bugbear - government red tape - still holds true. Archaic procedures are taking a toll on the imaginative uses of information technology, reports Alan Cane. Page 34

One for all and all for one

Banco Hispano Americano de Spain and West Germany's Commerzbank have begun talks with Banco di Roma which could soon result in the three banks exchanging equity holdings. Hispano confirmed that the Spanish and West German banks had begun to take positions in Banco di Roma which would then enable better access to the Italian bank's information network and for all three banks jointly to develop new banking products. Page 21

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France calls time on the monopoly game

William Dawkins
reports on the little-known cartel watchdog which is making its presence felt

Senior executives in top French construction and electrical engineering companies are smarting under the impact of the largest anti-cartel fines ever imposed by the country's fledgling Competition Council.

The fines, a total of FF168m (\$30m) levied on 80 construction firms just before Christmas, followed by FF128m for 43 electrical groups last month, are the most spectacular evidence to date of the change in French competition rules introduced in 1986, but which has had relatively little impact until now.

Some of France's top corporate names, such as Bouygues in construction and Schneider in electrical engineering, were found guilty of fixing prices and conspiring to carve up major public contracts. It was embarrassing for them and may even change the way they do business with each other.

The fines were equally striking for France's European Community partners who - perhaps wrongly - thought Paris still had serious doubts about the benefits of promoting free competition. These are the results of investigations which started two to three years ago. The 1986 reforms included an end to the post-war system of price controls, as well as the establishment of the Competition Council to catch and fine abusers of dominant positions. Even so, the Council is starting to have a wider effect than many observers thought likely.

The Council has previously been seen as an obscure body, devoted to defending small individual consumer complaints rather than the busting of cartels. This has dramatically changed, so that fines imposed by the Council - which ran in the dry go up to 5 per cent of a guilty company's annual sales - have rocketed from a mere FF2.5m in 1988 to FF168m last year.

The man at the heart of the Council is 46-year-old Mr Frédéric Jenny, a bearded business school graduate who talks with enthusiasm about his job. A former PhD in economics from Harvard, he was an adviser to Mrs Christine Scrivener, consumer affairs minister, under the right-wing administration of Mr Valéry Giscard d'Estaing which in 1977 launched the Competition Council's precursor.



The Competition Commission, as it was known, was criticised for being toothless. Unlike the Council which succeeded it nine years later, it was unable to launch its own inquiries and had to wait for the go-ahead from the Economics Ministry.

Mr Jenny, the Council's rapporteur général, or chief inspector, as it were, likens today's Council to the West German Bundeskartellamt or the European Commission's competition directorate because it is politically independent and draws solely on national competition law for its rulings.

There is, however, a telling difference. Unlike the Bundeskartellamt or the Brussels Commission, the Council cannot independently open inquiries into potentially anti-competitive mergers. It can hit at abuses of monopoly power, but not at the creation of monopolies themselves. These are still the domain of the Economics Ministry, which must ask for the Council's advice but can, and does, overrule it.

The Brussels and Berlin merger control authorities are also sometimes overruled by their political masters. But the distinction reveals the extent to which the French Government must hold political control over mergers, for all the growth in economic liberal attitudes in the Socialist administration.

The split is echoed at the ministerial level, where Mr Pierre Bérégovoy, the finance and economics minister, has final say on mergers, while market rigging and abuse of dominant positions is the domain of Mrs Véronique Nègre, consumer affairs minister.

There is still a lingering feeling among French bureaucrats in charge of industrial policy that economic concentration is necessary to ensure the competitive-

ness of French firms and that the Government should play an active role in the area of industrial structures, argues Mr Jenny, who makes no secret of his disappointment that the Council has no decision-making powers over mergers. But even without mergers, the Council's workload is growing enormously. Mr Jenny has another 150 cases under investigation, and expects to receive roughly 50 complaints per year - although none of the present batch are quite as big as the ones which recently hit the headlines. They cover price fixing, distribution restrictions and conflicts of interest in a ragbag of sectors from advertising to newspapers, banking and car dealers.

The Council's permanent staff include 15 rapporteurs under Mr Jenny, experts in civil law, administrative law and economics. They produce the opinions on individual cases, but the investigative work is done by a department of the Economics Ministry. Final decisions are left to the Council members, a panel of six magistrates, economists, senior lawyers and businessmen, under the presidency of Mr Pierre Laurent, a senior member of the Council d'Etat, the supreme arbiter of French administrative law. Companies are allowed to appeal in court against rulings by the Council.

Will the French Council ever get the right to launch its own merger inquiries, like other anti-trust authorities? Not in the future, believes Mr Jenny. But one thing is sure, he argues: "France now considers the fight against anti-competitive agreements and abuses of monopoly power to be a particularly important part of its economic policy." And that trend is here to stay.

A clear view into the financial abyss

By Anthony Harris in Washington

Washington's perspective on the world is always foreshortened; small power manoeuvres inside the Beltway, which are not noticed at all beyond it, dominate the local view. In a few weeks, though, the picture has become not so much distorted as fantastical.

Politics and power have gone offshore. Despite the President's endless diversionary fireworks, it is clear that the US is of less and less account. The "drug summit" helped the media to forget that the Vice-President met a humiliating display of turned backs when he tried to make an announced post-Panama tour of Latin America. The immediate neighbours are stand-offish, and those across the Atlantic tend to fix things up between themselves.

The result is not only that the unimaginable happens every day, but that Washington has quite literally become hollowed out. Residents can park in usually cluttered streets, walk into restaurants which once had three-day waiting lists, and spend the meal wondering where everyone has gone.

Into hiding, perhaps, for the strangest spectacle of all is the financial apocalypse which is being revealed by increasingly frequent instalments. It is now clear that the savings and loan failure is only the beginning. For example, one current set of prosecutions suggests that there was an active conspiracy to use some of the highest S&Ls, which were themselves financed with junk bonds, to collect brokered deposits for further junk bonds buying - financial "creativity" feeding on itself.

The S&Ls were thus used to finance excessive corporate debt, now leading to bankruptcy outside the savings movement. These bankruptcies are in turn undermining the investment portfolios of insurance companies and pension schemes. This financial catastrophe is being revealed in slow motion, like a free fall in a nightmare - and in an eerie silence, since it is all too technical for the news programme.

However, the facts are clear enough for anyone who understands very large numbers - and the number who do is actually a very small number. We now know that the savings and loan debacle has swallowed at least \$300bn of assets, leading an equal volume of deposits onto the national debt.

The possible deficiency on other Federally-backed liabilities - insurance and pensions - has been put by the General Accounting Office at up to \$500bn. In addition, the Medicare system is probably bankrupt, and will certainly be so - to the tune of at least \$200bn - by mid-decade. Add it all up, and the bill for the Reagan era is not only a trillion-dollar national debt, but roughly another trillion in liabilities which have begun to show up in the law courts, but not in the national accounts.

It seems unlikely that this is the end of the story. The kind of chain reaction which follows a wild credit binge can be seen in Texas. In Austin, the state capital and the scene of the worst excesses, asset values are still cascading down four years after the abyss opened, as leases expire, tenants are wowed and thus enforce rent reductions, and capitalised values fall further in anticipation of the next round. Then comes more financial failure, and more distress sales. Dallas is said to be on the mend, and Houston is plausibly within sight of the bottom, but not Austin.

A similar tale is unfolding in New England, where the economic miracle which Governor Michael Dukakis was citing in his campaign only 18 months ago has turned to nightmare. It is creeping into Manhattan, where the collapse of a company the size of Drexel must have some impact on downtown property values - and may even be visible in the national personal income statistics, so grossly were the operators overpaid. It is surely in the near future for the defence-based regions of California and around Washington (an alternative explanation of the empty restaurants).

At first sight the US economy may appear to be shrugging off these disasters with comical unconcern, like one of those characters in a cartoon film who keep walking for several strides after they have stepped off the precipice. In fact, the news is increasingly being understood in the financial markets, the sideways drift of the last two prosperous years has spoken for the underlying worry.

Values would have fallen further except that the Japanese are worried by the unmeasured abyss left by their own credit-fueled boom. All other markets are being sustained at the moment by the



huge outflow from Tokyo. The next two or three weeks will be tense, as the reaction to the Japanese election becomes clear. If Japanese self-confidence does not revive, the financial markets could soon face the shock which normally follows a cartoon double-take.

The impact on the real economy may be slow enough to be readily manageable, in the US at any rate. The coming slowdown (or near standstill) in commercial construction has been in prospect for some time. The supply of bank credit for this purpose has been progressively choked off in recent months. Now the authorities want further cutbacks, and there is some concern that restraint may have been imposed a bit late; but these fears are already well discounted in the bank equity market. No real surprises.

The next impact will be on small companies, who will find financing more difficult - but hardly impossible - now that the fantasists of greed have given unsecured loans the name of junk. This will hardly have a significant economic impact, but it will figure in two policy debates of 1990, on capital gains and on financial regulation.

The President will no doubt cite small company problems in arguing for his capital gains tax cut project, real entrepreneurial funds will be needed now that the regulators have cut off the supply of federally-insured deposits diverted by sharp practice into this market - although he is unlikely to put the base in these terms.

Meanwhile, the doctrinaire regulators are already making a shrill whining noise about the great services of Drexel Burnham to US enterprise, and the danger of using a little criminality as an excuse to undo the benefits of financial freedom. It seems likely that these bleats will be treated in Congress with deserved contempt. The Hill is mounting some impressive (if belated) investigations into financial malpractice, and it seems unlikely that Mr Alan Greenspan will take the occasion of his Humphrey-Hawkins testimony this week to make his annual plea for the repeal of the Glass-Steagall Act. The Fed Chairman, who in 1985 gave evidence on Capitol Hill in favour of letting S&Ls buy junk bonds, surely knows when to keep a tactful silence.

Economics Notebook: UK rates policy takes hold London's bane is regional boon

IT is difficult to find much to cheer in the latest round of monetary tightening. But if there is any consolation in the Abbey National's decision to lift its basic lending rate by a hefty 0.5 percentage points to 15.4 per cent, it is that it should help further to narrow Britain's North-South divide.

The process is already well under way. Mr Michael Howard, the employment minister, said last week that the largest falls in unemployment over the last year were in northern England followed by Scotland and Wales. The Government's tight monetary policy started to do the trick last year as the heavily-mortgaged south-east was the first region to feel the effects of higher mortgage rates and falling house prices.

The pattern has been exaggerated by last year's fall in the value of the pound and the buoyant state of Britain's export markets in Europe, which are sustaining demand for manufactured goods from factories concentrated in the north and Midlands.

Although the south-east may no longer be overheating, the legacy of strong growth in the late 1980s is painfully apparent in terms of congestion and the non-availability of labour. Government departments and private companies are still shifting operations to the regions as a result. One recent example was British Telecom's decision to move up to 8,000 of its managerial staff out of London to cheaper locations in the Midlands and north of England during the next seven years.

many of those worst hit are retailers which cannot move from their customer base. According to Mr Charles Burton, joint managing director of BSL Business Strategies, an economic research company that specialises in regional planning issues, London and the south-east will not be among the fastest growing regions in Britain during the next four years. Whereas virtually all of Britain south-east of the Severn and the Trent enjoyed fast growth averaging between 2.1 and 3.6 per cent a year between 1989 and 1993, the fastest growing regions between 1990 and 1994 will form a west-to-east wedge across the country from south Wales to east Anglia and Lincolnshire. BSL forecasts that this belt of relative prosperity, north of a line between Gloucester and Harwich, will grow at between 2.7 per cent and 3.6 per cent a year, compared with projected growth of 2.4 per cent to 2.7 per cent in London, the south-east and south-west of England.

Providing Britain avoids a full-blown recession, Mr Burton envisages a "last in, first out" pattern developing in the economy, with those regions which experience less of a decline in the current slowdown leading the country out of the downturn before recovery in the south-east. One consequence is that old ideas about the north starting at Watford no longer hold good. Instead, according to Mr David Lomax, group economic adviser for National Westminster Bank, Britain's core prosperity area now runs well beyond the extended London area to Bristol in the west and through the Midlands, into Lancashire and Yorkshire.

In a recent speech to the Institute of Economic Affairs, Mr Lomax argued that improved communications

have much reduced "the economic distance" between what had been considered fairly distant parts of the UK.

"What we have tended to regard as different regions, such as London, the west Midlands and the east Midlands, would be regarded by people in other parts of the world as simply slightly distant suburbs," he said.

Mr Lomax noted that people now seem keen to leave London. In particular, the high cost of residential property was "catapulting" young people at the start of their careers away from the capital. He forecast that this trend would be marked in the early 1990s. Young people would flee London to find accommodation, and companies, facing a shortage of young people in any case, would "pursue them with vigour to any area where there is a trained labour force."

Mr Lomax made his remarks last month, but it is unlikely that conditions have changed greatly in the meantime. From the point of view of a young person starting career, the beneficial effects of any intervening fall in London house prices will have been offset by the prospect of a generalised rise in mortgage rates following the Abbey National's move.

Mr Lomax's advice to the Government was simply to acknowledge the favourable regional effects of its economic policy. Presenting what is doubtless still a minority view among economists, he said: "This Government, and indeed any government, is within striking distance of announcing an end to the regional problems of the UK, as we have known them, and of taking the credit for a massive relative improvement in the prosperity of the provinces."

Peter Norman

THIS WEEK

INTERNATIONAL financial markets will be listening closely to Mr Alan Greenspan, chairman of the US Federal Reserve Board, who delivers his Humphrey-Hawkins testimony to the House Banking Committee of the US Congress tomorrow.

The markets are hoping to hear reassurance from Mr Greenspan about recent events in the US junk bond market - in particular, the collapse of Drexel Burnham Lambert - in order to assess their impact on credit flows.

This biannual event's influence on the market is undoubted. It has been known to include nuggets about monetary policy, as well as reveal clues about the authorities' thinking on inflation and interest rates.

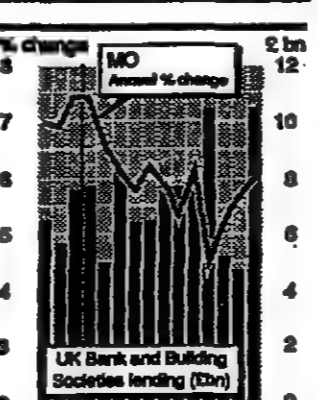
Mr Greenspan could tomorrow reiterate concern about US dependence on foreign capital to finance its budget deficit (the January figure is due out this Thursday). Also expected to issue from the testimony are new money supply targets.

Today all government offices and cash markets in the US are closed for President Washington's birthday.

January's money supply figures are published in the UK tomorrow. They are expected to confirm that December's figures, which showed a surge in bank and building society lending to £10.3bn (£17.4bn), were buoyed by exceptional factors. January's leading figure is predicted by MMS International, the financial research company, at \$26m.

The narrow money indicator, M0 - representing mainly notes and coin in circulation - is expected to dip by 0.3 per cent in January after December's 0.9 per cent rise. On Friday, net new commitments by building societies are expected to show a slight fall to £2.8bn in January from £2.9bn in December.

Also on Tuesday, will be the first meeting in East Berlin of the East-West German committees to explore the way towards



monetary union between the two Germanys. Today or tomorrow, West German money supply and import price data are due for release.

Wednesday's US consumer price index is expected to reflect the weak health of the auto industry. None the less, the index which includes food and energy is billed to rise to 0.8 per cent, twice the rate of the previous month.

Other noteworthy events, meetings and statistics, with consensus forecast figures from MMS in brackets, are as follows: Today: UK, cyclical indicators for January. France, monthly industrial production for December. Australia, December retail trade. West Germany, money supply, M3, for January.

Tuesday: Japan, January M2 (10.4 per cent). France, Treasury Bill auction. Canada, annual budget statement. Wednesday: UK preliminary output-based fourth quarter gross domestic product (0.4 per cent). US, real earnings for January. West Germany, securities repo results.

Thursday: US federal budget deficit - In January 1989 the deficit was \$14.8. US, unemployment claims. Import and export price index. Friday: US, January bank credit, auto sales. France, fourth quarter provisional GDP.

These shares and warrants have all been sold and this announcement appears as a matter of record only

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INTERNATIONAL CAPITAL MARKETS

LEVERAGED BUY-OUTS IN EUROPE

Mezzanine funding slips to a lower level

THE DEMISE of Drexel Burnham Lambert and the collapse of the US junk bond market has brought on a bout of credit revulsion in the US. This and the high-profile problems of some big debt-financed UK buy-outs have severely damaged the market in subordinated or "mezzanine" loans, the thickly under-developed European equivalent of the junk bond market.

Mr Tom Swayne, the new corporate finance executive for Europe, Africa and the Middle East for Chase Investment Bank, has a fairly typical banker's view. "The days when you put together a deal with a large slug of mezzanine, which was there really to make up for the fact that too much had been paid for the company, are over." But deals with sensible capital structures and enough equity "will continue to be done."

But how many transactions

in Europe will fall into this "sensible" category? The flow of deals seems likely to slow significantly, and their average size will come down sharply. Apart from traditional takeovers, the focus will be on companies selling subsidiaries to management. The likelihood of any big publicly-quoted companies going private in deals financed by debt in 1990 appears to be small and, in the UK, non-existent.

There is a division of opinion about whether mezzanine debt has a place in this new world. Certainly, where it is seen as a signal that the buyer has paid too much for a company, its prospects are not good. Investors will not buy concepts such as pay-in-kind mezzanine, which delay cash returns to holders, since it will usually be seen as a signal of overpaying.

Mr Rupert Wiles, a local director of 3i, the UK leveraged buy-out specialist, sees mezza-

nine as having a place, but only to enhance the returns of equity investors. It should not be there merely to allow buyers to pay over the odds.

He believes there will be a "greater desire to see the vendor participate in the transaction by providing the mezzanine part of the deal." That taking on of subordinated loans by sellers used to be quite common UK practice.

The biggest holders of mezzanine debt have been the banks. As they shy away from senior debt, will they be interested in the riskier mezzanine? Only a few see bank interest in mezzanine, and that because it is available in smaller bites than the senior debt. Mr Wiles questions whether banks should have been there at all. "The wrong sort of investors have gone into the mezzanine," he says. Banks tend to over-react to losses; traditional equity investors handle them with

more equanimity. Yet, equity investors in the UK have never been convinced of the advantages of mezzanine.

But even if banks leave the market, there are still mezzanine funds, with spare capacity - in limited size in each deal - to invest in mezzanine finance. Kleinwort Benson recently established an \$25m European mezzanine fund. Its general manager, Mr Erik Linnes, will have two 1989 investments to put in the new fund, but admits that the next deal may be tough to find. The others include Intermediate Capital Group, and Drexel's own First Britannia. Mr Keith Harris, Drexel's managing director, says Drexel almost fully vested its share of the \$200m fund. It is one third invested and still looking for business.

The largest player is probably GE Capital, subsidiary of General Electric Capital Corpo-

ration of the US. It suffered with its big mezzanine investment in the buy-out of the kitchen retailer Magnet that went wrong only months after it closed. Yet some outsiders think mezzanine may now be too insignificant for a company of GECC's size to bother with. With banks retreating from the senior debt, they could have an opportunity there.

The proof of the pudding is in the eating. One leveraged financing viewed as a market bellwether has been the syndication of loans in a \$717m funding for the leveraged buy-out of Swedish Match. That is going very slowly. J.P. Morgan, the arranger, has had to extend for two or three weeks the syndication period. Banks are worried about the asset disposals planned, and some are concerned by the sharp jump predicted in operating profits.

Stephen Fidler

INTERNATIONAL BONDS

World Bank issue fails to live up to fond memories

INITIAL reactions to the launch last week of the World Bank's second global bond issue were that the ambitious programme was still in place. But only just.

Such was the success of the first \$1.5bn 10-year deal last year, that inevitably its successor was surrounded by what one dealer described as reckless hype.

Within two days of the new \$1.5bn seven-year deal, much of that hype had evaporated. Investors and syndicate officials realised they could not rely on this or any future deals automatically to tighten spread terms. Debate centred on the pricing of the bonds and the cultural difficulties caused by global issues. US investors, used to the procedure in the

domestic underwriting system, were apparently prepared to accept the sharply-narrowed spread of 33.4 basis points at which the deal was finally launched.

In Europe, however, investors sounded out at a spread of between 35 and 38 basis points, found the reduction impossible to swallow. Most, including more than one central bank, decided not to participate. This left unexpected blocks of paper in the market and added to downward pressure when the deal was launched.

Of the third leg of the global market, Japan, there were conflicting reports. It is understood that an important reason why the World Bank decided to narrow the launch spread so aggressively was its belief that Japanese accounts were prepared to buy the paper even if the spread were to reach as low as 30 basis points.

Indeed, the bank was informed that the apparent over-subscription by a factor of around four at the original price might allow it to launch the deal safely at a narrower spread.

Deep Japanese demand was vital to the strategy adopted by the World Bank. When the deal was launched, however, the immediate after-market was thin and the spread against Treasuries widened. By late afternoon on Friday, one house close to the deal said it had not conducted a single after-market order in Tokyo.

With the Treasury market showing signs of weakness in the sessions after the launch of last week's deal, many investors were facing losses of around 1/2 to 1 point on their world bank bonds. At one point on Friday the semi-annual spread on the bid side reached 36 basis points.

As it was, perhaps too many investors were persuaded by memories of the original global issue which for a time performed extremely well, allowing US investors in particular to sell their allocations to Japan for a profit. The extensive marketing that accompanied the deal and the bank's insistence on the importance of a successful precedent, ensured that investors' allocations were heavily cut back.

When that experience is laid

alongside the reports of frenzied Japanese demand for the new bonds, it is easy to see why some clients were prepared to take historically expensive paper.

However, the lessons drawn by investors from the first deal proved peculiarly inappropriate when applied to the second. Last year, even large investors struggled to get more than a few World Bank bonds at the launch price. When news of a second issue emerged, it appears the same investors made very exaggerated bids in an attempt to gain large blocks of paper. This helped create the impression of exceptionally strong demand at the initial indicated spread. In choosing to cut the spread, the World Bank opened itself to the charge of short-termism. It also drew attention to the problem of different market practices aroused by the global format.

The bank opted to grab funds now and face the consequences later. Syndicate managers expressed no doubt that a third global issue would have to be more generous, particularly if it were launched in a currency other than dollars. They wondered whether the small saving in basis points on the current issue would backfire.

Has the decision damaged the prospects for the development of a genuinely global market in dollar bonds? According to syndicate managers in London, the answer is no. There are several deals on the drawing board that assume a single dollar market.

Andrew Freeman

EUROMARKET TURNOVER (\$m)

Primary Market	Secondary Market	Other
US\$ 2,078.9	2,078.9	0.0
Yen 1,125.1	1,125.1	0.0
DM 1,025.3	1,025.3	0.0
FFr 1,025.3	1,025.3	0.0
Sfr 1,025.3	1,025.3	0.0
Other 1,025.3	1,025.3	0.0
Total 10,324.9	10,324.9	0.0
US\$ 1,025.3	1,025.3	0.0
Yen 1,025.3	1,025.3	0.0
DM 1,025.3	1,025.3	0.0
FFr 1,025.3	1,025.3	0.0
Sfr 1,025.3	1,025.3	0.0
Other 1,025.3	1,025.3	0.0
Total 10,324.9	10,324.9	0.0

Week to February 18, 1990 Source: ABN

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount (\$m)	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Norges & Co.♦♦	200	1994	4	8 1/2	102	Deutsche Bank	8.250
Stand. Cr. Corp. Ltd.♦♦	200	1995	5	8 1/2	98.44	Salomon Brothers	8.142
Stand. Cr. Corp. Ltd.♦♦	110	1998	8 1/2	9 1/2	99.47	Salomon Brothers	8.491
Mitsubishi Int. (Neth.)♦♦	30	2000	10	(a)	102	Mitsubishi Fin. Int.	1.000
Samick Ind. (Neth.)♦♦	30	2004	14 1/2	1	100	Seahong Int. & Sec.	0.790
World Bank♦♦	1.5bn	1997	7	8 1/2	100	G. Sachs/Morgan Stanley	8.887
Dong Ah Constr. (K)♦♦	100	1997	7	8 1/2	108	Swiss Bank Corp.	8.887
Samwa Australia♦♦	80	2000	10	8 1/2	102	Salomon Brothers	8.887
ESB (I)♦♦	300	2001	11	8 1/2	98.918	Salomon Brothers	8.887
D-MARKS							
Belgium, Kingdom of (I)♦♦	800	2000	10	10	100	Deutsche Bank	1.625
Star Micronics Co.♦♦	100	1994	4	15	100	Nomura Europe	1.625
U-Shin Ltd.♦♦	50	1994	4	15	100	Nomura Europe	1.625
SWISS FRANCES							
Carter Holt Harvey Fin.♦♦	(a)	1995	-	(7)	100	S.G. Warburg Sodite	1.625
U-Shin Ltd.♦♦	40	1994	-	15	100	USBS	1.625
Hyojo Bank (I)♦♦	200	1994	-	15	100	Swiss Volksbank	0.250
Toyoko Shutter Co. (I)♦♦	50	1994	-	Zero	100	Credit Suisse	1.625
Old Electric Cable♦♦	50	1995	-	15	100	Yamaichi Bk. (Switz)	7.107
Province of Manitoba♦♦	200	2000	-	7 1/2	101	USBS	7.107
Nat. Nederlanden US♦♦	75	1995	-	7 1/2	101	USBS	7.107
Creditanstalt-Brenn.♦♦	100	2000	-	7 1/2	101 1/2	Wirtschafts- und Polk	7.254
Kyushu Electric Power♦♦	180	2000	-	7 1/2	101 1/2	SBC	7.254
STERLING							
ECSC♦♦	50	2000	19	11 1/2	100 1/2	SZW	11.808
Woolwich B. Society (m)♦♦	250	1994	4	15	100	USBS Phillips & Drew	11.808
Nationwide Anglia♦♦	100	1994	4	15	101 1/2	USBS Phillips & Drew	11.808
WesLis Finance♦♦	50	1994	4	15	101.03	NatWest Cap. Markets	12.888
ECUs							
C. Gen. de Coop. Econ.♦♦	200	2000	19	(b)	100.16	Paribas Capital Mkt	10.016
Export Dev. Corp. (n)♦♦	100	1991	1	11 1/2	101.26	USBS Phillips & Drew	10.016
FRENCH FRANCES							
Soc. Generale Acc. (I)♦♦	500	1995	6	Zero	100 1/2	Societe Generale	-
LINE							
ESB♦♦	200m	1995	5	15 1/2	99 1/2	San Paolo Bank	13.684

This announcement appears as a matter of record only.

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FEBRUARY 1990



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INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Mack's \$185m loss exceeds forecasts

By Roderick Oram in New York

MACK TRUCKS, battered by a deep sales slump and extraordinary charges, has reported a far bigger loss for the fourth quarter and year than Wall Street had expected.

The full-year loss was \$185.4m, or \$6.24 a share, against a net profit of \$31.8m, or \$1.07, a year earlier. For the fourth quarter ended December, Mack reported a net loss of \$79.5m or \$2.67 a share, against a net profit of \$13.8m or 47 cents a year earlier. The latest period included an extraordinary tax charge of \$864,000 while the year earlier one included a tax gain of \$3.4m.

Given the weakness of the US truck market, "we expect that losses, although on a

smaller scale, will continue into 1990 as our recovery programme continues," said Mr Ralph Reins, chairman.

To help improve its finances, Mack has reached an agreement in principle on a \$50m convertible subordinated loan from Renault, the French motor group which has a 45 per cent stake in it.

If Renault chooses to convert the 20-year debenture, it would boost its interest in Mack to 55 per cent.

Alternatively, Renault could convert existing stock warrants to raise its stake to more than 50 per cent.

Mack said it had also reached agreement with its bankers on a three-year refinancing of \$148m of debt.

Adverse items in the most recent quarter included a \$12.9m charge for settling a dispute with a major supplier and a \$12.5m charge for the cost of cutting its workforce.

Sales plunged to \$370.8m from \$444.7m a year earlier. Heavy and medium-duty truck deliveries fell by 38 per cent and 48 per cent respectively.

In addition to the fourth-quarter charges, the company also suffered from a \$54m increase in warranty and related costs reflecting the difficulties it had introducing a new truck model and a new 12-litre engine.

Full-year sales dropped 17 per cent to \$1.75bn from \$2.1bn.

Deliveries of heavy-duty trucks fell 21 per cent and medium-duty trucks declined by 20 per cent.

Mack also said it had reached agreement with the United Auto Workers on a contract for its Wixom, South Carolina, plant.

It was opened in August, 1987, as a highly-automated, non-unionised plant designed to cut manufacturing and labour costs. Innumerable problems dogged production into 1988 and the union finally won recognition there last year.

"We have been able to significantly strengthen our relationship with the UAW in recent months," Mr Reins said.

Echo Bay Mines hit by cut in metal reserves

By Kenneth Gooding, Mining Correspondent

SHARES in Echo Bay Mines, fourth-largest of the North American gold producers, fell by 12 per cent on Friday after the company revealed there was far less gold and silver in its McCoy-Cove deposit in Nevada than previously estimated.

The shares, quoted on the Toronto stock exchange, closed \$33.4, lower at \$31.9.

Echo said precious metal reserves at McCoy-Cove, by far its most important development project, had been reduced by 38 per cent. Underground mining would still go ahead but at a much reduced rate.

The company hastened to assure analysts that it had not made similar miscalculations at its two development projects in Alaska.

Echo reported a fourth-quarter loss of US\$11.2m or 12 cents a share compared with a profit of US\$17.7m or 18 cents after taking account of a US\$25m writedown on investments, mainly in the Mascocho companies.

For the year there was a profit of US\$18m or 16 cents against a profit of US\$54.4m or 56 cents.

Downturn at Kirin Brewery

By Our Financial Staff

KIRIN BREWERY, Japan's biggest beer producer, registered pre-tax profits of ¥64.6m (\$448m) for the whole of last year, against ¥64.7m for the previous 11 months.

The group forecasts a further setback this year, blaming increased competition, a declining market, and the cost of new products. Pre-tax profits are expected to reach just ¥58.5m in 1990.

Sales were ¥1,100bn last year, against ¥1,180bn for 11 months, but are projected to edge up to ¥1,260bn this year.

A maintained total dividend of ¥7.50 per share is being paid for 1989 from net earnings of ¥28.51, down from ¥32.05. Earnings are forecast at ¥24.94 in the current year.

Commerzbank, Hispano in Banco di Roma talks

By Peter Bruce in Madrid

BANCO Hispano Americano of Spain and West Germany's Commerzbank have begun talks with Banco di Roma, the big state-controlled Italian bank, which could soon result in the three banks exchanging equity holdings.

Hispano confirmed that the Spanish and West German banks had begun talks to take positions in Banco di Roma which would then enable better access to the Italian bank's information network and for all three banks jointly to develop new banking products.

Commerzbank has owned 10 per cent of Hispano since 1973 and the Spanish bank last year bought 5 per cent of Commerzbank for some Ptas500 (\$83m). The two banks, plus Banco di Roma and Crédit Lyonnais of France are all members of Europartners, an informal banking consortium.

Hispano's purchase of a stake in Commerzbank last year was designed to strengthen this arrangement ahead of 1992 but efforts to

interest either Banco di Roma or Crédit Lyonnais in a similar deal have so far come to nothing. This is because both are nationalised and political interests have limited the entry of foreign capital.

But the recent appointment of a Christian Democrat, Mr Franco Nobili, as head of the Italian Institute for Industrial Reconstruction (Iri), which owns 77 per cent of Banco di Roma, appears to have opened the way for both the German and Spanish partners.

Hispano would not comment on reports that it and Commerzbank could take a maximum stake of 15 per cent each in Banco di Roma, one of the five largest banks in Italy.

Although Banco di Roma's political future remains unclear, it is expected to form part of a big reorganisation of Italian credit institutions and some reports have suggested that as part of this Istituto Mobiliare Italiano (Imi), the state-owned medium-term credit operation, may take con-

trol of Banco di Roma. ● Commerzbank said the decision was a political one, to be made in Italy, but it had heard indications that Iri was ready to divest up to 25 per cent of its holding to Imi, writes Katharine Campbell in Frankfurt.

This might then enable Commerzbank, and possibly Banco Hispano Americano, each to take a small share of the Imi holding. Commerzbank regards this as a deepening of the Europartners relationship, which has been in existence since 1971 but has warmed up recently in the light of post-1982 prospects.

● Banco di Roma has announced a large Euro-ire certificates of deposit programme which widens the range of lire instruments for international investors.

The bank is the issuer and arranger of the L500bn programme, which will be priced on a demand basis. Dealers are Nomura, UBS Phillips & Drew, Deutsche Bank and National Westminster Bank.

VW sales up 10% to DM65bn

By Katharine Campbell in Frankfurt

A RECORD turnover at Volkswagen will bring significantly higher profits for 1989, the West German car manufacturer said in a letter to shareholders.

The buoyancy of the European market has underpinned a 3 per cent growth in sales to 2.94m VW, Audi and Seat cars worldwide. A move up market, both in terms of the models themselves and their fittings, has boosted the value of sales 10.5 per cent to DM65bn (\$38.7m).

Most analysts are forecasting group net profits - to be announced in May - comfortably in excess of DM1bn. The comparable figure for 1988 was DM700m.

European sales totalled

2.14m cars, enabling VW to retain its coveted number one position in continental Europe, just ahead of Fiat, with a 15 per cent market share. While its cost control programme proceeds, the company is giving up some of its savings in higher specification cars to retain its lead over Fiat, analysts pointed out.

It is the European export markets - Italy, Spain, and France - which are behind the company's solid growth performance, and sales here were 9.3 per cent above those recorded for 1988. The Passat did particularly well in these markets, almost doubling volumes.

One analyst noted that VW would face, along with domestic manufacturers, considera-

bly tougher competition in the more protected European markets - notably Italy and Spain - as the internal market is freed up from 1993.

Domestically, meanwhile, deliveries fell 1.5 per cent to 354,000 vehicles, though VW reported significant growth in the Passat and Seat models as well as in sales of commercial vehicles. Prices price competition in the US led to a sharp 19 per cent drop in turnover.

The company's Latin American activities grew slightly, with a total of 371,000 VWs sold. While strike disruption at car component manufacturers set the Brazilian Autolatina operation back, the Mexican plant sold 85,000 cars, representing a 40 per cent increase.

US regulators take control of Kansas thrift

By Janet Bush in New York

FRANKLIN Savings Association, a large savings and loan based in Kansas, has become the latest troubled thrift to be taken over by the Government.

Federal regulators took control of the thrift with assets of \$1.14bn last Friday. The Office of Thrift Supervision said that Franklin's net worth would fall to a negative \$44.3m after examiners forced the thrift to make several accounting changes.

Regulators forced Franklin to record \$115m in losses from futures trading which it had intended to write off over seven years and said that the thrift would also probably lose another \$185m on zero-coupon bonds that it issued in 1984.

Franklin's problems, unlike many other troubled thrifts, did not stem from heavy investment in high-yielding junk bonds or real estate.

The Office of Thrift Supervision said Franklin's operations deteriorated over the last 18 months because it was unable to generate sufficient profits from securities trades or interest income to cover high-interest payments needed to attract deposits.

Mr Ernest Fleischer, removed as chairman on Friday, designed revolutionary new financial instruments aimed at reducing the risks of interest rate volatility.

Asko furniture plans dropped

By Katharine Campbell

ASKO AND Metro, the West German retailers planning two joint ventures, are modifying the construction of one of the new groups, in the hope of making the package more acceptable to the Federal Cartel Office in Berlin.

They have dropped plans to bring their respective furniture businesses into Deutsche SB-Kauf as, with combined sales of DM3.3bn (\$1.9m), they felt the move might have prompted an investigation.

Oce raises net by 11%

OCE-VAN Der Grinten, the Dutch copier and office equipment company, increased net profits by 11 per cent to F184.7m (\$44.3m) for fiscal 1989, AP-DV reports. This compared with F176m for 1988, and was in line with expectations.

Sales in the year ended November 30 rose 14 per cent to F12.13bn from F11.95bn in fiscal 1988. After the elimination of sales from the 1989 acquisition of a graphics company and the effects of exchange rate transactions, the underlying rate of sales growth in 1989 was 8 per cent.

Higher financing costs and taxes meant Oce's operating profits rose faster than net profits - up 17.8 per cent to F144.8m. Financing costs in fiscal 1989 rose 33 per cent to F124m from F118m in 1988.

Although Oce increased its number of outstanding shares by 3 per cent as the result of conversions, net profit per share rose 8.3 per cent to F128.18 per share.

Oce is considering a five-for-one stock split and the payment of an unchanged 1989 dividend of F10 per ordinary share.

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Particulars of the Shares and Warrants are expected to be available in the Statistical Services of Exel Financial Limited on 21st February, 1990 and copies of the Placing Memorandum which comprise Listing Particulars relating to The Scottish Asian Investment Company Limited may be obtained during normal business hours from the Company Announcements Office of The Stock Exchange on 20th and 21st February, 1990 and until 4th March, 1990 (Saturdays and public holidays excepted) from:-

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19th February, 1990

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Floating Rate Subordinated Capital Debentures due 2095

Notice is hereby given that for the six months interest period from February 20, 1990 to August 20, 1990 the Debentures will carry an interest rate of 8 1/4% per annum. The interest payable on the relevant interest payment date, August 20, 1990 against Coupon No. 8 will be U.S. \$427.36 and U.S. \$4,273.60 respectively for Debentures in denominations of U.S. \$10,000 and U.S. \$100,000.

By: The Chase Manhattan Bank, N.A.
London, Agent Bank

February 19, 1990

CHASE

KANBALLIS-OSAKE-PANKKI

JPY10,000,000,000

Floating Rate Secured Notes Due 1991

For the 6 months period 15th February, 1990 to 15th August, 1990 the Notes bear the interest rate of 1.8352% per annum. JPY18,352 will be payable from 15th August, 1990 per JPY1,000,000 principal amount of Notes.

Yamaichi International (Europe) Limited, Agent Bank

London, Agent Bank

February 19, 1990

SCOTTISH FINANCIAL AND PROFESSIONAL SERVICES

The Financial Times proposes to publish this survey on:

Friday, March 23rd, 1990

For a full editorial synopsis and advertisement details, please contact:

Kenneth Swan
Tel: 631 - 228 - 1199
Fax: 631 - 228 - 1576

or write to him at:

Financial Times
37, George Street
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BNC MORTGAGE NOTES 4 PLC

Class A
Mortgage Backed Floating Rate Notes due August 2021

For the interest period from February 15, 1990 to May 15, 1990 the Note Rate has been determined at 15.3673% per annum. The interest payable on the relevant interest payment date, May 15, 1990 will be £3,747.14 per £100,000 nominal amount.

By: The Chase Manhattan Bank, N.A.
London, Agent Bank
February 19, 1990

£9,000,000

BNC MORTGAGE NOTES 4 PLC

Class B
Mortgage Backed Floating Rate Notes due August 2021

For the interest period from February 15, 1990 to May 15, 1990 the Note Rate has been determined at 15.0675% per annum. The interest payable on the relevant interest payment date, May 15, 1990 will be £2,922.71 per £100,000 nominal amount.

By: The Chase Manhattan Bank, N.A.
London, Agent Bank
February 19, 1990

This announcement appears as a matter of record only.

British Gas

British Gas public limited company

Issue of

£150,000,000

12 3/4 per cent. Bonds due 1995


Baring Brothers & Co., Limited

Barclays de Zotte Wedd Limited ◆ Credit Suisse First Boston Limited
Deutsche Bank Capital Markets ◆ Kleinwort Benson Limited
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February, 1990

CANADA

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CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

Gilts follow downward path

UK GILTS followed a downward path last week and gained no reassurance from Friday's retail price index, giving an unchanged year-on-year inflation rate of 7.7 per cent in January. The City expected a fall to 7.5, mainly because rail price rises in the calculation, and this year's rail increases were delayed until February.

UK clearing bank base lending rate 15 per cent from October 5

Within the next few months inflation will be boosted by several factors, including the higher rail fares, rising mortgage rates and possibly by duty increases in the Budget. Mr Nick Parsons, economist at Union Discount, said the RPI could touch 8 per cent in April. This is potentially worse for gilts than for the structure of

interest rates, and for the performance of the relative futures contracts on Liffe.

If inflation continues to rise it will drive gilts lower, but there is no reason to believe base rates will rise at present. Base rates are equally unlikely to fall and this will lead to a drift down in the price of short sterling, but if the long gilt contract continues to fall at its present rate a situation not yet seen on the Liffe market is not far away.

At no time has the price of the long gilt been lower than the price of short sterling, but at the end of last week the June gilt price was 86.31, while June short sterling was 85.15. In the later part of last year long gilt futures were still trading above 95.00, compared with a price of around 85.00 for short sterling. Since then the fall in the gilt price has been much sharper and unless base rates go up the two contracts could cross within a few months.

IN NEW YORK

Feb 16	Close	Previous
3 month	1.0700-1.0800	1.0650-1.0750
6 month	1.0700-1.0800	1.0650-1.0750
12 month	1.0700-1.0800	1.0650-1.0750

Forward premium and discount apply to the US dollar

STERLING INDEX

Feb 16	Close	Previous
3 month	85.15	85.15
6 month	85.15	85.15
12 month	85.15	85.15

CURRENCY RATES

Feb 16	Rate	Special	Current
US dollar	1.6700	1.6700	1.6700
Japanese yen	160.00	160.00	160.00
Swiss franc	1.5000	1.5000	1.5000
West German mark	1.9300	1.9300	1.9300
French franc	6.5500	6.5500	6.5500
Italian lira	2.0000	2.0000	2.0000
Spanish peseta	166.67	166.67	166.67
Portuguese escudo	200.00	200.00	200.00
Belgian franc	36.36	36.36	36.36
Dutch guilder	2.48	2.48	2.48
Australian dollar	1.5000	1.5000	1.5000
New Zealand dollar	1.6000	1.6000	1.6000
South African rand	1.8000	1.8000	1.8000
Israeli sheqel	1.8000	1.8000	1.8000
Thai baht	50.00	50.00	50.00
Singapore dollar	1.3000	1.3000	1.3000
Malaysian ringgit	2.5000	2.5000	2.5000
Indonesian rupiah	1,600.00	1,600.00	1,600.00
Philippine peso	46.00	46.00	46.00
Chinese yuan	8.2000	8.2000	8.2000
South Korean won	200.00	200.00	200.00
Thai baht	50.00	50.00	50.00
Singapore dollar	1.3000	1.3000	1.3000
Malaysian ringgit	2.5000	2.5000	2.5000
Indonesian rupiah	1,600.00	1,600.00	1,600.00
Philippine peso	46.00	46.00	46.00
Chinese yuan	8.2000	8.2000	8.2000
South Korean won	200.00	200.00	200.00

Source: Reuters. All rates are for 100 units of foreign currency against 1 US dollar.

CURRENCY MOVEMENTS

Feb 16	Bank of England	Market
3 month	1.0700	1.0700
6 month	1.0700	1.0700
12 month	1.0700	1.0700

Source: Reuters. All rates are for 100 units of foreign currency against 1 US dollar.

OTHER CURRENCIES

Feb 16	Rate	Special	Current
US dollar	1.6700	1.6700	1.6700
Japanese yen	160.00	160.00	160.00
Swiss franc	1.5000	1.5000	1.5000
West German mark	1.9300	1.9300	1.9300
French franc	6.5500	6.5500	6.5500
Italian lira	2.0000	2.0000	2.0000
Spanish peseta	166.67	166.67	166.67
Portuguese escudo	200.00	200.00	200.00
Belgian franc	36.36	36.36	36.36
Dutch guilder	2.48	2.48	2.48
Australian dollar	1.5000	1.5000	1.5000
New Zealand dollar	1.6000	1.6000	1.6000
South African rand	1.8000	1.8000	1.8000
Israeli sheqel	1.8000	1.8000	1.8000
Thai baht	50.00	50.00	50.00
Singapore dollar	1.3000	1.3000	1.3000
Malaysian ringgit	2.5000	2.5000	2.5000
Indonesian rupiah	1,600.00	1,600.00	1,600.00
Philippine peso	46.00	46.00	46.00
Chinese yuan	8.2000	8.2000	8.2000
South Korean won	200.00	200.00	200.00
Thai baht	50.00	50.00	50.00
Singapore dollar	1.3000	1.3000	1.3000
Malaysian ringgit	2.5000	2.5000	2.5000
Indonesian rupiah	1,600.00	1,600.00	1,600.00
Philippine peso	46.00	46.00	46.00
Chinese yuan	8.2000	8.2000	8.2000
South Korean won	200.00	200.00	200.00

Source: Reuters. All rates are for 100 units of foreign currency against 1 US dollar.

POUND SPOT - FORWARD AGAINST THE POUND

Feb 16	Day's spread	Close	One month	Three months	Six months	One year
US	1.6700-1.6800	1.6700	1.6700	1.6700	1.6700	1.6700
Canada	1.0000-1.0100	1.0000	1.0000	1.0000	1.0000	1.0000
Japan	160.00-161.00	160.00	160.00	160.00	160.00	160.00
Switzerland	1.5000-1.5100	1.5000	1.5000	1.5000	1.5000	1.5000
West Germany	1.9300-1.9400	1.9300	1.9300	1.9300	1.9300	1.9300
France	6.5500-6.5600	6.5500	6.5500	6.5500	6.5500	6.5500
Italy	2.0000-2.0100	2.0000	2.0000	2.0000	2.0000	2.0000
Spain	166.67-167.67	166.67	166.67	166.67	166.67	166.67
Portugal	200.00-201.00	200.00	200.00	200.00	200.00	200.00
Belgium	36.36-36.37	36.36	36.36	36.36	36.36	36.36
Netherlands	2.48-2.49	2.48	2.48	2.48	2.48	2.48
Australia	1.5000-1.5100	1.5000	1.5000	1.5000	1.5000	1.5000
New Zealand	1.6000-1.6100	1.6000	1.6000	1.6000	1.6000	1.6000
South Africa	1.8000-1.8100	1.8000	1.8000	1.8000	1.8000	1.8000
Israel	1.8000-1.8100	1.8000	1.8000	1.8000	1.8000	1.8000
Thailand	50.00-50.01	50.00	50.00	50.00	50.00	50.00
Singapore	1.3000-1.3100	1.3000	1.3000	1.3000	1.3000	1.3000
Malaysia	2.5000-2.5100	2.5000	2.5000	2.5000	2.5000	2.5000
Indonesia	1,600.00-1,600.01	1,600.00	1,600.00	1,600.00	1,600.00	1,600.00
Philippines	46.00-46.01	46.00	46.00	46.00	46.00	46.00
China	8.2000-8.2001	8.2000	8.2000	8.2000	8.2000	8.2000
South Korea	200.00-200.01	200.00	200.00	200.00	200.00	200.00

Commercial rates (bank to bank) on the London market. All rates are for 100 units of foreign currency against 1 pound sterling. Forward rates are for 12 months.

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Feb 16	Day's spread	Close	One month	Three months	Six months	One year
US	1.6700-1.6800	1.6700	1.6700	1.6700	1.6700	1.6700
Canada	1.0000-1.0100	1.0000	1.0000	1.0000	1.0000	1.0000
Japan	160.00-161.00	160.00	160.00	160.00	160.00	160.00
Switzerland	1.5000-1.5100	1.5000	1.5000	1.5000	1.5000	1.5000
West Germany	1.9300-1.9400	1.9300	1.9300	1.9300	1.9300	1.9300
France	6.5500-6.5600	6.5500	6.5500	6.5500	6.5500	6.5500
Italy	2.0000-2.0100	2.0000	2.0000	2.0000	2.0000	2.0000
Spain	166.67-167.67	166.67	166.67	166.67	166.67	166.67
Portugal	200.00-201.00	200.00	200.00	200.00	200.00	200.00
Belgium	36.36-36.37	36.36	36.36	36.36	36.36	36.36
Netherlands	2.48-2.49	2.48	2.48	2.48	2.48	2.48
Australia	1.5000-1.5100	1.5000	1.5000	1.5000	1.5000	1.5000
New Zealand	1.6000-1.6100	1.6000	1.6000	1.6000	1.6000	1.6000
South Africa	1.8000-1.8100	1.8000	1.8000	1.8000	1.8000	1.8000
Israel	1.8000-1.8100	1.8000	1.8000	1.8000	1.8000	1.8000
Thailand	50.00-50.01	50.00	50.00	50.00	50.00	50.00
Singapore	1.3000-1.3100	1.3000	1.3000	1.3000	1.3000	1.3000
Malaysia	2.5000-2.5100	2.5000	2.5000	2.5000	2.5000	2.5000
Indonesia	1,600.00-1,600.01	1,600.00	1,600.00	1,600.00	1,600.00	1,600.00
Philippines	46.00-46.01	46.00	46.00	46.00	46.00	46.00
China	8.2000-8.2001	8.2000	8.2000	8.2000	8.2000	8.2000
South Korea	200.00-200.01	200.00	200.00	200.00	200.00	200.00

Commercial rates (bank to bank) on the London market. All rates are for 100 units of foreign currency against 1 US dollar. Forward rates are for 12 months.

EXCHANGE CROSS RATES

Feb 16	US	UK	FR	DE	JP	IT	ES	PT
US	1.0000	0.6933	1.6667	0.5192	0.0060	0.0193	0.0165	0.0048
UK	1.4433	1.0000	2.3656	0.7337	0.0085	0.0260	0.0227	0.0070
FR	0.6000	0.4255	1.0000	0.2936	0.0036	0.0113	0.0098	0.0030
DE	1.9363	1.3663	3.4093	1.0000	0.0143	0.0476	0.0413	0.0136
JP	160.93	111.24	263.70	68.96	1.0000	0.0074	0.0064	0.0025
IT	51.93	36.36	87.56	23.76	135.64	1.0000	0.8667	0.3125
ES	61.63	43.48	103.34	28.66	166.67	1.1538	1.0000	0.3704
PT	20.48	14.29	33.33	9.09	40.00	3.1250	2.6667	1.0000

Source: Reuters. All rates are for 100 units of foreign currency against 1 US dollar.

EURO CURRENCY INTEREST RATES

Feb 16	Rate	Special	Current
US dollar	1.6700	1.6700	1.6700
Japanese yen	160.00	160.00	160.00
Swiss franc	1.5000	1.5000	1.5000
West German mark	1.9300	1.9300	1.9300
French franc	6.5500	6.5500	6.5500
Italian lira	2.0000	2.0000	2.0000
Spanish peseta	166.67	166.67	166.67
Portuguese escudo	200.00	200.00	200.00
Belgian franc	36.36	36.36	36.36
Dutch guilder	2.48	2.48	2.48
Australian dollar	1.5000	1.5000	1.5000
New Zealand dollar	1.6000	1.6000	1.6000
South African rand	1.8000	1.8000	1.8000
Israeli sheqel	1.8000	1.8000	1.8000
Thai baht	50.00	50.00	50.00
Singapore dollar	1.3000	1.3000	1.3000
Malaysian ringgit	2.5000	2.5000	2.5000
Indonesian rupiah	1,600.00	1,600.00	1,600.00
Philippine peso	46.00	46.00	46.00
Chinese yuan	8.2000	8.2000	8.2000
South Korean won	200.00	200.00	200.00
Thai baht	50.00	50.00	50.00
Singapore dollar	1.3000	1.3000	1.3000
Malaysian ringgit	2.5000	2.5000	2.5000
Indonesian rupiah	1,600.00	1,600.00	1,600.00
Philippine peso	46.00	46.00	46.00
Chinese yuan	8.2000	8.2000	8.2000
South Korean won	200.00	200.00	200.00

Source: Reuters. All rates are for 100 units of foreign currency against 1 US dollar.

FT LONDON INTERBANK FIXING

Feb 16	Rate	Special	Current
US dollar	1.6700	1.6700	1.6700
Japanese yen	160.00	160.00	160.00
Swiss franc	1.5000	1.5000	1.5000
West German mark	1.9300	1.9300	1.9300
French franc	6.5500	6.5500	6.5500
Italian lira	2.0000	2.0000	2.0000
Spanish peseta	166.67	166.67	166.67
Portuguese escudo	200.00	200.00	200.00
Belgian franc	36.36	36.36	36.36
Dutch guilder	2.48	2.48	2.48
Australian dollar	1.5000	1.5000	1.5000
New Zealand dollar	1.6000	1.6000	1.6000
South African rand	1.8000	1.8000	1.8000
Israeli sheqel	1.8000	1.8000	1.8000
Thai baht	50.00	50.00	50.00
Singapore dollar	1.3000	1.3000	1.3000
Malaysian ringgit	2.5000	2.5000	2.5000
Indonesian rupiah	1,600.00	1,600.00	1,600.00
Philippine peso	46.00	46.00	46.00
Chinese yuan	8.2000	8.2000	8.2000
South Korean won	200.00	200.00	200.00
Thai baht	50.00	50.00	50.00
Singapore dollar	1.3000	1.3000	1.3000
Malaysian ringgit	2.5000	2.5000	2.5000
Indonesian rupiah	1,600.00	1,600.00	1,600.00
Philippine peso	46.00	46.00	46.

ELECTRICALS—Contd

[illegible]

● For Latest Share Prices on any telephone ring direct-0636 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak. Inc VAT

1. 2. 3. 4. 5. 6. 7. 8. 9. 10. 11. 12. 13. 14. 15. 16. 17. 18. 19. 20. 21. 22. 23. 24. 25. 26. 27. 28. 29. 30. 31. 32. 33. 34. 35. 36. 37. 38. 39. 40. 41. 42. 43. 44. 45. 46. 47. 48. 49. 50. 51. 52. 53. 54. 55. 56. 57. 58. 59. 60. 61. 62. 63. 64. 65. 66. 67. 68. 69. 70. 71. 72. 73. 74. 75. 76. 77. 78. 79. 80. 81. 82. 83. 84. 85. 86. 87. 88. 89. 90. 91. 92. 93. 94. 95. 96. 97. 98. 99. 100. 101. 102. 103. 104. 105. 106. 107. 108. 109. 110. 111. 112. 113. 114. 115. 116. 117. 118. 119. 120. 121. 122. 123. 124. 125. 126. 127. 128. 129. 130. 131. 132. 133. 134. 135. 136. 137. 138. 139. 140. 141. 142. 143. 144. 145. 146. 147. 148. 149. 150. 151. 152. 153. 154. 155. 156. 157. 158. 159. 160. 161. 162. 163. 164. 165. 166. 167. 168. 169. 170. 171. 172. 173. 174. 175. 176. 177. 178. 179. 180. 181. 182. 183. 184. 185. 186. 187. 188. 189. 190. 191. 192. 193. 194. 195. 196. 197. 198. 199. 200. 201. 202. 203. 204. 205. 206. 207. 208. 209. 210. 211. 212. 213. 214. 215. 216. 217. 218. 219. 220. 221. 222. 223. 224. 225. 226. 227. 228. 229. 230. 231. 232. 233. 234. 235. 236. 237. 238. 239. 240. 241. 242. 243. 244. 245. 246. 247. 248. 249. 250. 251. 252. 253. 254. 255. 256. 257. 258. 259. 260. 261. 262. 263. 264. 265. 266. 267. 268. 269. 270. 271. 272. 273. 274. 275. 276. 277. 278. 279. 280. 281. 282. 283. 284. 285. 286. 287. 288. 289. 290. 291. 292. 293. 294. 295. 296. 297. 298. 299. 300. 301. 302. 303. 304. 305. 306. 307. 308. 309. 310. 311. 312. 313. 314. 315. 316. 317. 318. 319. 320. 321. 322. 323. 324. 325. 326. 327. 328. 329. 330. 331. 332. 333. 334. 335. 336. 337. 338. 339. 340. 341. 342. 343. 344. 345. 346. 347. 348. 349. 350. 351. 352. 353. 354. 355. 356. 357. 358. 359. 360. 361. 362. 363. 364. 365. 366. 367. 368. 369. 370. 371. 372. 373. 374. 375. 376. 377. 378. 379. 380. 381. 382. 383. 384. 385. 386. 387. 388. 389. 390. 391. 392. 393. 394. 395. 396. 397. 398. 399. 400. 401. 402. 403. 404. 405. 406. 407. 408. 409. 410. 411. 412. 413. 414. 415. 416. 417. 418. 419. 420. 421. 422. 423. 424. 425. 426. 427. 428. 429. 430. 431. 432. 433. 434. 435. 436. 437. 438. 439. 440. 441. 442. 443. 444. 445. 446. 447. 448. 449. 450. 451. 452. 453. 454. 455. 456. 457. 458. 459. 460. 461. 462. 463. 464. 465. 466. 467. 468. 469. 470. 471. 472. 473. 474. 475. 476. 477. 478. 479. 480. 481. 482. 483. 484. 485. 486. 487. 488. 489. 490. 491. 492. 493. 494. 495. 496. 497. 498. 499. 500. 501. 502. 503. 504. 505. 506. 507. 508. 509. 510. 511. 512. 513. 514. 515. 516. 517. 518. 519. 520. 521. 522. 523. 524. 525. 526. 527. 528. 529. 530. 531. 532. 533. 534. 535. 536. 537. 538. 539. 540. 541. 542. 543. 544. 545. 546. 547. 548. 549. 550. 551. 552. 553. 554. 555. 556. 557. 558. 559. 560. 561. 562. 563. 564. 565. 566. 567. 568. 569. 570. 571. 572. 573. 574. 575. 576. 577. 578. 579. 580. 581. 582. 583. 584. 585. 586. 587. 588. 589. 590. 591. 592. 593. 594. 595. 596. 597. 598. 599. 600. 601. 602. 603. 604. 605. 606. 607. 608. 609. 610. 611. 612. 613. 614. 615. 616. 617. 618. 619. 620. 621. 622. 623. 624. 625. 626. 627. 628. 629. 630. 631. 632. 633. 634. 635. 636. 637. 638. 639. 640. 641. 642. 643. 644. 645. 646. 647. 648. 649. 650. 651. 652. 653. 654. 655. 656. 657. 658. 659. 660. 661. 662. 663. 664. 665. 666. 667. 668. 669. 670. 671. 672. 673. 674. 675. 676. 677. 678. 679. 680. 681. 682. 683. 684. 685. 686. 687. 688. 689. 690. 691. 692. 693. 694. 695. 696. 697. 698. 699. 700. 701. 702. 703. 704. 705. 706. 707. 708. 709. 710. 711. 712. 713. 714. 715. 716. 717. 718. 719. 720. 721. 722. 723. 724. 725. 726. 727. 728. 729. 730. 731. 732. 733. 734. 735. 736. 737. 738. 739. 740. 741. 742. 743. 744. 745. 746. 747. 748. 749. 750. 751. 752. 753. 754. 755. 756. 757. 758. 759. 760. 761. 762. 763. 764. 765. 766. 767. 768. 769. 770. 771. 772. 773. 774. 775. 776. 777. 778. 779. 780. 781. 782. 783. 784. 785. 786. 787. 788. 789. 790. 791. 792. 793. 794. 795. 796. 797. 798. 799. 800. 801. 802. 803. 804. 805. 806. 807. 808. 809. 810. 811. 812. 813. 814. 815. 816. 817. 818. 819. 820. 821. 822. 823. 824. 825. 826. 827. 828. 829. 830. 831. 832. 833. 834. 835. 836. 837. 838. 839. 840.

| Price | Div
Yield | Last
Sale | Dividends
Paid | Yield
on Div |
|-------|--------------|--------------|-------------------|-----------------|
|-------|--------------|--------------|-------------------|-----------------|

| | | | | | | |
|---------------|-----|---|---|---|---|-----|
| Miscellaneous | 190 | - | - | - | - | 518 |
| | 110 | - | - | - | - | 507 |

| | | | | | |
|-----------|------|-------|-----|------|-----------|
| front | 24 | | | | |
| old | 597 | | | | |
| ng 10p | 27 | | | | |
| Corp | 25 | | | | |
| a 10c | 85 | 030c | 9.0 | 17.7 | Aug. Feb. |
| | 18 | | | | 2221 |
| | 29.3 | | | | 507 |
| inals 2p | 97 | M.I.D | 1.4 | | 143 |
| ts | 74 | | | | 242 |
| | 74 | | | 6.85 | 267 |
| | 35 | | | | 217 |
| of Milnes | 18.4 | 5020c | 1.1 | 12.4 | Dec Jun |
| | 13.2 | .020c | 9.9 | 18.5 | Jan Jan |

| | | | | | |
|-----|-------|-------|------|---------|-----|
| 43 | | | | | 145 |
| 15 | | | | | |
| 14 | | | | | |
| 382 | | 10.77 | | | |
| 17 | | | | | |
| 526 | 115.0 | 3.8 | 18.9 | Dec Jul | 288 |
| 12 | | | | | |
| 173 | 7.8 | 6.3 | 6.9 | Apr Oct | 250 |

| | Price | Bid
Net | Yld
Lb | Load
xlb | Shrinkage
Per cent | City
Haul |
|----------|-------|------------|-----------|-------------|-----------------------|--------------|
| 2-2000-y | 74 | 1.0 | 1.8 | 8.5 | July | 502 |
| 2-1000-y | 41 | - | - | - | - | 195 |
| 2-500-y | 28 | - | - | - | - | 278 |

[illegible]

| | | | | | |
|----|-------|-----|-------|---------|-----|
| 16 | | | | | |
| 17 | 60.30 | 3.0 | 27.12 | January | 508 |
| 18 | | | | | 602 |
| 19 | | | | | 141 |
| 20 | | | | | 141 |
| 21 | | | | | 254 |
| 22 | | | | | 492 |
| 23 | | | | | 143 |
| 24 | | | | | 145 |
| 25 | 0.75 | 1.7 | | Jan Apr | 514 |
| 26 | | | | | 192 |

| | | | | | |
|----------|-----|------|-------|------|-----------|
| 30 | 12 | | | | 242 |
| very 30 | 75 | | | | 541 |
| exp 2 30 | 67 | | 10.10 | | 375 |
| Data 30 | 14 | | | | 524 |
| 1 30 | 28 | | | | 574 |
| 1 30 | 21 | | 3.7 | | 303 |
| 1 30 | 4 | | | | 142 |
| 1 30 | 74 | 2.0 | 3.5 | 8.5 | June |
| 1 30 | 43 | 12.0 | 6.2 | 14.8 | Sept. Apr |
| 1 30 | 333 | | | | 657 |
| 1 30 | 41 | 12.0 | 6.5 | 18.9 | October |
| 1 30 | 78 | | | | 243 |

| | | | | | |
|-----|----|--|--|--|-----|
| 18 | 54 | | | | 341 |
| 19 | 54 | | | | 147 |
| 20 | 54 | | | | 276 |
| 21 | 54 | | | | 311 |
| 22 | 54 | | | | 277 |
| 23 | 54 | | | | 311 |
| 24 | 54 | | | | 277 |
| 25 | 54 | | | | 311 |
| 26 | 54 | | | | 277 |
| 27 | 54 | | | | 311 |
| 28 | 54 | | | | 277 |
| 29 | 54 | | | | 311 |
| 30 | 54 | | | | 277 |
| 31 | 54 | | | | 311 |
| 32 | 54 | | | | 277 |
| 33 | 54 | | | | 311 |
| 34 | 54 | | | | 277 |
| 35 | 54 | | | | 311 |
| 36 | 54 | | | | 277 |
| 37 | 54 | | | | 311 |
| 38 | 54 | | | | 277 |
| 39 | 54 | | | | 311 |
| 40 | 54 | | | | 277 |
| 41 | 54 | | | | 311 |
| 42 | 54 | | | | 277 |
| 43 | 54 | | | | 311 |
| 44 | 54 | | | | 277 |
| 45 | 54 | | | | 311 |
| 46 | 54 | | | | 277 |
| 47 | 54 | | | | 311 |
| 48 | 54 | | | | 277 |
| 49 | 54 | | | | 311 |
| 50 | 54 | | | | 277 |
| 51 | 54 | | | | 311 |
| 52 | 54 | | | | 277 |
| 53 | 54 | | | | 311 |
| 54 | 54 | | | | 277 |
| 55 | 54 | | | | 311 |
| 56 | 54 | | | | 277 |
| 57 | 54 | | | | 311 |
| 58 | 54 | | | | 277 |
| 59 | 54 | | | | 311 |
| 60 | 54 | | | | 277 |
| 61 | 54 | | | | 311 |
| 62 | 54 | | | | 277 |
| 63 | 54 | | | | 311 |
| 64 | 54 | | | | 277 |
| 65 | 54 | | | | 311 |
| 66 | 54 | | | | 277 |
| 67 | 54 | | | | 311 |
| 68 | 54 | | | | 277 |
| 69 | 54 | | | | 311 |
| 70 | 54 | | | | 277 |
| 71 | 54 | | | | 311 |
| 72 | 54 | | | | 277 |
| 73 | 54 | | | | 311 |
| 74 | 54 | | | | 277 |
| 75 | 54 | | | | 311 |
| 76 | 54 | | | | 277 |
| 77 | 54 | | | | 311 |
| 78 | 54 | | | | 277 |
| 79 | 54 | | | | 311 |
| 80 | 54 | | | | 277 |
| 81 | 54 | | | | 311 |
| 82 | 54 | | | | 277 |
| 83 | 54 | | | | 311 |
| 84 | 54 | | | | 277 |
| 85 | 54 | | | | 311 |
| 86 | 54 | | | | 277 |
| 87 | 54 | | | | 311 |
| 88 | 54 | | | | 277 |
| 89 | 54 | | | | 311 |
| 90 | 54 | | | | 277 |
| 91 | 54 | | | | 311 |
| 92 | 54 | | | | 277 |
| 93 | 54 | | | | 311 |
| 94 | 54 | | | | 277 |
| 95 | 54 | | | | 311 |
| 96 | 54 | | | | 277 |
| 97 | 54 | | | | 311 |
| 98 | 54 | | | | 277 |
| 99 | 54 | | | | 311 |
| 100 | 54 | | | | 277 |

| | | | | |
|------|-----|---|---|-----|
| 200 | 2.4 | - | - | 412 |
| 190 | 2.0 | - | - | 413 |
| 180 | 2.0 | - | - | 414 |
| 170 | 2.0 | - | - | 415 |
| 160 | 2.0 | - | - | 416 |
| 150 | 2.0 | - | - | 417 |
| 140 | 2.0 | - | - | 418 |
| 130 | 2.0 | - | - | 419 |
| 120 | 2.0 | - | - | 420 |
| 110 | 2.0 | - | - | 421 |
| 100 | 2.0 | - | - | 422 |
| 90 | 2.0 | - | - | 423 |
| 80 | 2.0 | - | - | 424 |
| 70 | 2.0 | - | - | 425 |
| 60 | 2.0 | - | - | 426 |
| 50 | 2.0 | - | - | 427 |
| 40 | 2.0 | - | - | 428 |
| 30 | 2.0 | - | - | 429 |
| 20 | 2.0 | - | - | 430 |
| 10 | 2.0 | - | - | 431 |
| 0 | 2.0 | - | - | 432 |
| -10 | 2.0 | - | - | 433 |
| -20 | 2.0 | - | - | 434 |
| -30 | 2.0 | - | - | 435 |
| -40 | 2.0 | - | - | 436 |
| -50 | 2.0 | - | - | 437 |
| -60 | 2.0 | - | - | 438 |
| -70 | 2.0 | - | - | 439 |
| -80 | 2.0 | - | - | 440 |
| -90 | 2.0 | - | - | 441 |
| -100 | 2.0 | - | - | 442 |
| -110 | 2.0 | - | - | 443 |
| -120 | 2.0 | - | - | 444 |
| -130 | 2.0 | - | - | 445 |
| -140 | 2.0 | - | - | 446 |
| -150 | 2.0 | - | - | 447 |
| -160 | 2.0 | - | - | 448 |
| -170 | 2.0 | - | - | 449 |
| -180 | 2.0 | - | - | 450 |
| -190 | 2.0 | - | - | 451 |
| -200 | 2.0 | - | - | 452 |
| -210 | 2.0 | - | - | 453 |
| -220 | 2.0 | - | - | 454 |
| -230 | 2.0 | - | - | 455 |
| -240 | 2.0 | - | - | 456 |
| -250 | 2.0 | - | - | 457 |
| -260 | 2.0 | - | - | 458 |
| -270 | 2.0 | - | - | 459 |
| -280 | 2.0 | - | - | 460 |
| -290 | 2.0 | - | - | 461 |
| -300 | 2.0 | - | - | 462 |
| -310 | 2.0 | - | - | 463 |
| -320 | 2.0 | - | - | 464 |
| -330 | 2.0 | - | - | 465 |
| -340 | 2.0 | - | - | 466 |
| -350 | 2.0 | - | - | 467 |
| -360 | 2.0 | - | - | 468 |
| -370 | 2.0 | - | - | 469 |
| -380 | 2.0 | - | - | 470 |
| -390 | 2.0 | - | - | 471 |
| -400 | 2.0 | - | - | 472 |
| -410 | 2.0 | - | - | 473 |
| -420 | 2.0 | - | - | 474 |
| -430 | 2.0 | - | - | 475 |
| -440 | 2.0 | - | - | 476 |
| -450 | 2.0 | - | - | 477 |
| -460 | 2.0 | - | - | 478 |
| -470 | 2.0 | - | - | 479 |
| -480 | 2.0 | - | - | 480 |
| -490 | 2. | | | |

Dividend—Dividend classifications are indicated to the right as Alpha, Beta, Gamma, Delta or Epsilon.
Paid—Indicated, prices and net dividends are in pence.
Yield—Yields are based on middle price, as at AGT of 25 per cent and allow for value added tax and rights.

listed on Stock Exchange and company may
 degree of regulation as listed securities
 to listed
 of suspension
 avoided after pending suits and/or rights issues
 reorganization in progress
 able
 firm; reduced final and/or reduced earnings
 to avoid.

for conversion of shares not now ranking for

Ranking only for restricted dividend.
 Not allow for shares which may also rank for a future date.

France, Fr. French Francs \pounds Yield based on Equity Bill Rate stays unchanged until maturity of dividend. \pounds Figures based on prospectus.
 cents. c Cents. d Dividend rate paid or payable of a Redemption yield. f Flat yield. g Assumed d. h Assumed dividend and yield after scrip issue.
 capital source. i Kenya, or interim higher than Rights issue price. j Dividend and yield after scrip issue. k Dividend and yield after scrip issue. l Dividend and yield after scrip issue.

L. Net dividend and yield. M. Preference dividend. N. Canadian. O. Minimum tender price. P. Based on prospectus or other official estimates. Q. Assumed dividend and yield after pending security. R. Dividend and yield based on prospectus estimates for 1989. S. Dividend and yield based on other official estimates for 1987-88. T. Estimate only. U. Dividend and yield based on prospectus estimates for 1988. V. Dividend and yield based on other official estimates for 1989-90. W. Figure

IRISH & IRISH STOCKS
a selection of Regional and Irish stocks, the
or being quoted in Irish currency.

| | | |
|-----------|----------------|-----|
| 82 | Armetta | 400 |
| 830 | Carroll (P.J.) | 160 |
| 84 | Hall (R. & H.) | 200 |
| 13000 +13 | Hutton Hilda | 900 |
| | IRT | 210 |
| | United Drug | 160 |

| ADDITIONAL OPTIONS | | |
|--------------------|----------------|--------|
| 3-month call rates | | |
| P | P & O Div. | \$1.38 |
| | Prody Pack | \$1.38 |
| | Racial Elect. | \$1.38 |
| | RHM | \$1.38 |
| 41 | Rock Org. Ord. | \$1.38 |
| 63 | Reed Intern. | \$1.38 |
| 54 | STC | \$1.38 |
| 67 | Sears | \$1.38 |

| | | |
|----|-----------------|--------|
| 64 | SmKI. Bochan A. | 48 |
| 37 | 77 | 38 |
| 40 | TSB | 9 |
| 28 | Tesco | 16 |
| 23 | Thorn EMI | 63 |
| 39 | Trust Houses | 29 |
| 46 | T&N | 16, 17 |
| 22 | Unilever | 37 |
| 31 | Vickers | 22 |
| 42 | Wellcome | 85 |

| | | |
|----|-----------------|----|
| 31 | Property | |
| 25 | Brit Land | 27 |
| 22 | Control Seas | 5 |
| 17 | Land Securities | 45 |
| 14 | MPC | 45 |
| 6 | Monmouth | 13 |
| 44 | | |
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The Business Column

The costly business of government computing

Central governments are the computer industry's biggest customers and can influence it profoundly. In the UK alone, the amount spent annually on information systems is approaching £1bn. Government computing in the UK, however, is a paradox. On the one hand, and in common with other governments and organisations like the European Commission, it is in the vanguard of the move towards "open" or industry standard systems which have a big objective reduced costs for users. In this, it sets an example which commercial companies have been slow to follow. On the other hand, central government procurement procedures are anachronistic, time-consuming and badly matched to the needs of the civil servants at every level in executive departments who use the technology. Those procedures stifle the development of imaginative uses of information technology in government.

The commercial world is years ahead here. Mr David Teague, who runs the Central Government Business Unit for International Computers (ICL), the UK's largest computer manufacturer and largest supplier to the government, calculates that inefficiencies in the procurement process add some 30 per cent to the cost of government computing. In the private sector this figure is 5 per cent.

Lower margins
These two things - the move towards open systems and unwarranted procurement overheads - reinforce each other to make life difficult for both suppliers and computer users. Systems based on standard hardware and software have intrinsically lower profit margins than proprietary systems.

Gross margins of 60 per cent or more on proprietary mainframe computers are being cut to 40 per cent or less on open systems sales. Yet traditional procurement methods waste time and money and squander innovation.

The result is that tendering for government business has become at best a marginally profitable activity for many suppliers. Mr Teague says that ICL has refused to bid for contracts where there is no prospect of reasonable profit. Other suppliers, he adds, have won contracts but lost money.

Their customers suffer now by being deprived of the traditional services - consultancy, training and so on - that suppliers threw in free. The procurement process is controlled by EC and Gatt regulations designed to encourage fair competition. Take, for example, the installation of an office automation system for a government department. Its need for the system is identified by the department, which discusses technical requirements with government IT staff. Technical requirements, mind, not user requirements.

Within an area of a little more than three square kilometres lies some of the world's finest examples of medieval architecture; and yet many of the monuments are crumbling, victims of neglect, the sheer weight of population and the destructive effects of rising sewage water and its corrosive salts. Much of Cairo's priceless Islamic heritage is disappearing. In a few generations nothing will be left but the grander monuments.

Naghib Mahfouz, the Nobel Laureate for literature, who has written much about Islamic Cairo and whose early life was spent there, likens the old city these days to an aged woman. "It is," he said recently, "as if you are meeting your beloved when she is old."

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George Seamon, an American University in Cairo expert on Islamic architecture, says that throughout the entire Islamic world you will not find anywhere else such a concentration of buildings and structures representing almost the full sweep of Islam's march from the seventh century on. He contrasts this with Istanbul, or Constantinople as it was during the Ottomans,

"DO YOU think takeovers are a good thing?", David Calcutt is asked.

"Does that matter?", he replies.

"Well, does it?", the questioner persists.

But Mr Calcutt, who took over in October 1989 as chairman of the Takeover Panel, the UK watchdog on bids and deals, is a QC of 17 years standing and not about to fall for this one.

"I'm more than content to be a regulator," he replies in tones reminiscent of Gielgud at his mellifluous best. "I've been asked if I will preside over the Takeover Panel and been presented with a system."

"But the virtues of takeovers, that seems to me to be a matter for the Government, the DTI, shareholders, almost anyone you like except me."

It is a reply which sums up much of the Panel chairman's approach. He is talking from a book-lined room in the Master's Lodge of Magdalene College, Cambridge, where he also presides. Organised bundles of red-ribboned briefs abound, a reminder that his legal work continues. The manglepiece is neatly piled with papers and invitations. There are two easy armchairs and an unglamorous one-bar electric fire. It is a mixture of order, reassurance and restraint. Above all, it is practical.

The same spirit shows up in Mr Calcutt's answers. One might imagine that heading the UK's takeover watchdog and watching over the development of its rules would require some assessment of the merits of the whole frenetic world of bids and deals. But David Calcutt is resolutely pragmatic. He is emphatic that the upper ranks of the legal profession should be used far more widely as arbitrators, as opposed to policy-makers, - and should be correspondingly jealous of their independence.

"What I privately feel," he says, "I shall keep private because I could jeopardise the independence which I want to maintain."

One wonders how much of a mask this professional attitude is. Mr Calcutt, who rejects the idea of "a certain dedicated person deciding on problem after problem," claims to have strong feelings about many of the matters before him.

Unlike Lord Alexander, who quit the Panel chairmanship after just two years to head National Westminster Bank, this courteous, top-ranking lawyer is an unfamiliar figure, both to City practitioners and to the general public. As a QC, Lord Alexander handled attention-grabbing cases, such as appearing for Kerry Packer's rebel cricketers and for BP over the sanctions row with Libya.

Mr Calcutt, by contrast, has

MONDAY INTERVIEW

The Master's view

David Calcutt, the chairman of the Takeover Panel, talks to Nikki Tait

tended to tackle less glamorous matters, including civil service pay arbitration - which, he points out, affected 1.5m people - coal mine closures (via the Colliery Industry Review Body), and the Falklands Islands Commission of Inquiry which he chaired. Only in very recent times, notably as chairman of the inquiry into privacy and the press, has he featured more prominently in public.

It would be easy to assume that his role at the Takeover Panel will be less high-profile, too. Lord Alexander took over shortly after the Guinness affair, when the Takeover

Panel was less than a year old. It was known that if a party breaks the rules during the course of a takeover it is liable to be exposed by the Panel in a statement and that cannot be good either for the merchant bank or for the client. Second, there is cold shouldering. And third, we're now under the umbrella of the Financial Services Act and its restrictions. He pauses, before delivering a well-worn trump card. "If you need living proof of it, it must have been quite difficult to persuade Guinness to part with £85m - the amount which the drinks group was obliged to pay to Distillers shareholders as a result of transgressing Panel rules during the bid battle for control."

But not without a battle which progressed all the way up to the House of Lords. "Never mind," Mr Calcutt says with a smile. "We won the battle. I feel that was a tremendous achievement. That proves that we're in business. We're not just a toothless tiger."

Even so, the thought persists that, while such all-out efforts may establish the Panel's ultimate authority, at a day-to-day level merchant banks do indulge in minor transgressions with remarkable frequency. Public rebukes seem to do little to deter them.

"They can't know at the time what the reaction is going to be," suggests Mr Calcutt in defence. Then, with the sort of diplomatic touch which may prove invaluable in Brussels, he soothes the discussion. "This is exactly the sort of thing which one's got to keep under review the whole time and see where we need to go from here. At the moment I'm quite content. We may have to look at it."

The point is critical. If the UK is to persuade its European partners that self-regulation

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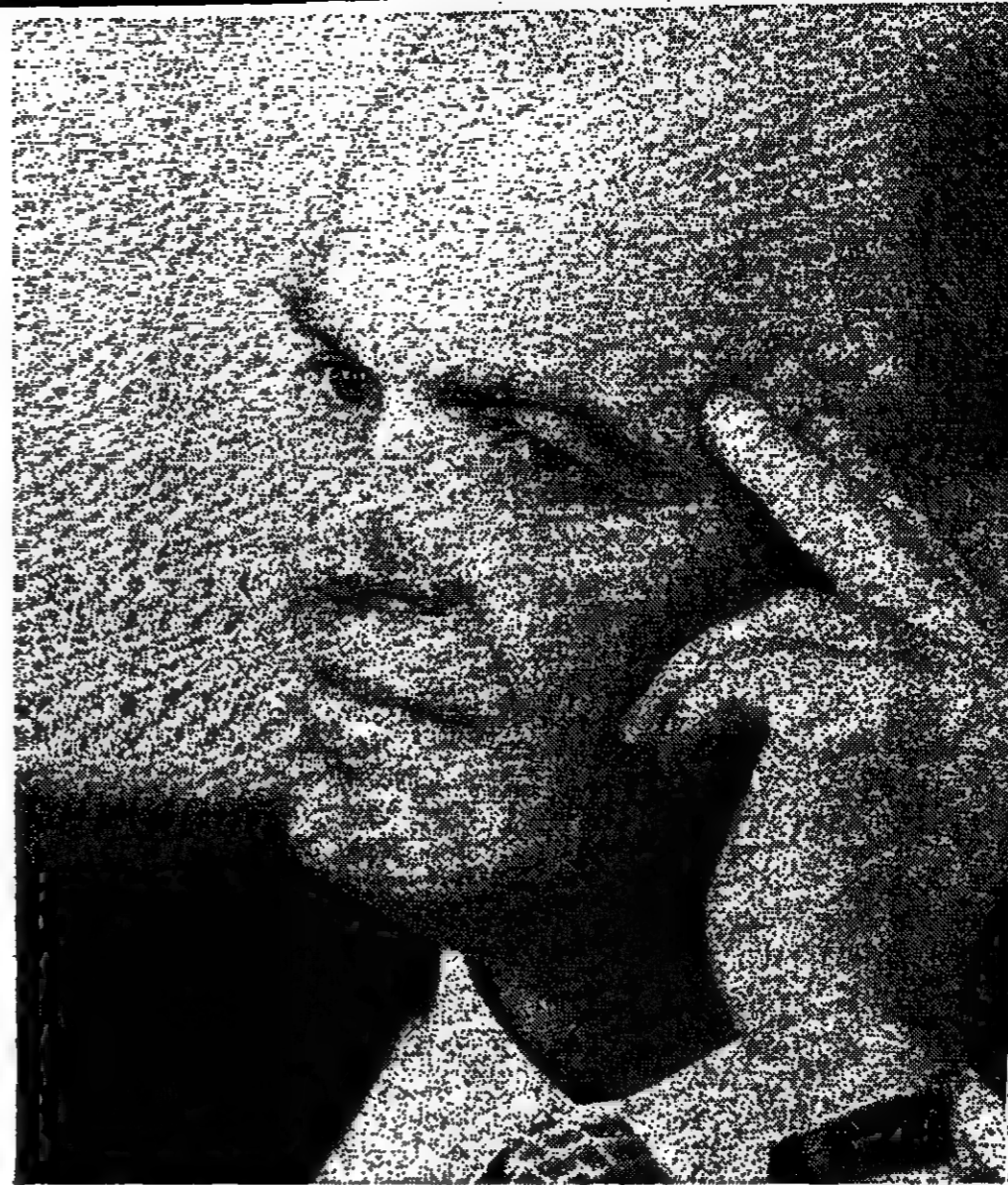
1930 Born, Marlow, Bucks. Educated King's College, Cambridge
1955 Called to Bar
1972 Queen's Counsel
1984 Chairman, Falklands Commission of Enquiry
1986-88 Member, Colliery Industry Review Body
1988- Chairman, Committee on Privacy
1989 Chairman, Takeover Panel

Panel's credibility as an effective regulator was in question. Some beefing up of rules and resources ensued, and most City practitioners believe that the past couple of years have been negotiated with a good deal of credit and no serious mishaps.

But Europe looms large, and attempts to draw up a common European takeover code, part of the 1993 harmonisation measures, have raised again the issue of whether Britain's non-statutory regulatory system is the most suitable.

Not surprisingly, Mr Calcutt is an enthusiast for the UK approach, professing himself content with the Panel's powers and resources.

"I think now we have got



The Panel will not be slavishly bound by precedent

should be allowed to persist, it needs to demonstrate that it works.

The Calcutt case is that experience and the track record justify the UK system. "The advantages as I see it are first, that the Panel is totally impartial, by which I mean that consultation is not only encouraged but, in some cases, is obligatory."

"The Code is highly flexible; we can derogate, if we want, from our principles. We've got speed, which is very important. And we've got the full Panel which can give a ruling which one hopes will be respected by the courts." He notes that in the past, British courts have been reluctant to interfere in takeover matters.

Would such a structure be

capable of extension to other European financial centres? Elsewhere, for example, public rebukes may not carry the same clout, and the notion of an independent watchdog staffed largely by the practitioners whom it monitors might be laughable.

"I would like to think it is compatible," says Mr Calcutt. "I can quite understand that the Germans, for example, may have a great deal of difficulty in seeing that there are any benefits in a non-statutory system. Other countries are represented as having other problems."

"My approach is to say that, well, we've got 75 per cent of the business at the moment and we have more experience. I hope that they will be per-

suaded of the way in which we do things is the best way."

"I'm saying that not in some sort of jingoist sense - because it's English it must be best. That is utterly untenable. But I think that if you look at our system it does work." He says what informs his mission is a desire to preserve the UK system for the UK, rather than to wish non-statutory regulation on other countries.

But if Europe is the largest single issue facing the new chairman, there is also the domestic bid scene to worry about. How does he feel about the consistency of the Panel's decision-making, the area which is sometimes cited as the downside to a flexible non-statutory system?

Mr Calcutt concedes the dan-

ger. "In a court of law, precedents would be appealed. That doesn't tie in awfully happily with the notion that we have principles and that we apply the principles in each case to give ourselves a certain amount of flexibility. I see the difficulty there."

"I believe, nevertheless, that the tendency is to want to be consistent. I just think the Panel is not prepared, and I go along with this, to be slavishly bound by precedent."

This could lead to some unhappy contradictions. The recent examples of the Consolidated Gold Fields/Minorco and BAT/Hoylake bids, where both predators faced obstacles overseas which meant they could not complete their offers within a UK timetable, spring to mind. Minorco lost the battle because it could not get a US court injunction lifted before the clock ran out. Hoylake has been allowed to let its bid lapse, seek US clearances and then rebid.

"I think the two cases were distinguishable and very difficult, but I don't see any inconsistency," Mr Calcutt says. "In the Minorco case, there was the question of a US court injunction and whether this could be lifted. There was always the possibility that the injunction might be lifted within a reasonable time. For BAT, there was never any reasonable possibility of getting US regulatory approval in the UK bid timescale; the bidder was asking for an extension. I think there is a distinction."

It is true that Minorco did not ask, as the Sir James Goldsmith/Hoylake consortium did, for permission to let its offer lapse and then restart if the US hurdle could be overcome. But if someone does not ask the right question, that, surely, should not be a reason for giving the wrong answer.

"I was not unhappy about the decision which was reached in the two cases," Mr Calcutt says.

And he is quick to stress that the BAT decision does, at least, seem a sensible way of proceeding as cross-border transactions come to dominate the bid scene. "We have got to take on board the fact that we are dealing with the international field. . . . Our thinking is probably in its infancy."

The Panel chairman pauses, contemplating the task. In the peace of a Cambridge afternoon, the City boathouse seems a million miles away. "The international question," declares Mr Calcutt coolly and confidently, "doesn't worry me a bit."

Cairo fights for its Islamic heritage

IT IS the metropolis of the universe, the garden of the world, the nest of the human species, the gateway to Islam, the throne of royalty: it is a city embellished with castles and palaces and adorned with monuments of domes and minarets and with the stars of erudition.

With these words Ibn Khaldun, the great 14th century Arab historian, drew a picture of Islamic Cairo so extravagant in its praise, so unmitigated in its admiration for the architectural achievements of the Mameluke rulers and their Fatimid predecessors, that it is difficult on reading his words not to be infected by his enthusiasm. And to ask why the legacy is not better appreciated today.

Within an area of a little more than three square kilometres lies some of the world's finest examples of medieval architecture; and yet many of the monuments are crumbling, victims of neglect, the sheer weight of population and the destructive effects of rising sewage water and its corrosive salts. Much of Cairo's priceless Islamic heritage is disappearing. In a few generations nothing will be left but the grander monuments.

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LETTER FROM CAIRO

where grand Islamic monuments date from the relatively recent past, or Damascus where there are huge gaps in the Islamic legacy.

Calls for the protection of the old city as a monument to past civilisations - the Fatimids established its outline in the 10th century and named it al-Qahira which became known as Cairo in the West - are barely heard, it seems, in a country overwhelmed by the problems of today.

Professor Ronald Lewcock, an Australian expert on Islamic architecture who contributed to a Unesco study commissioned in the late 1970s, commented recently that the bulk of the repair work done in the past decade appeared "cosmetic, repairing surfaces and often merely applying bright coats of paint." He added that the "fundamental underlying defects, like rising groundwater, which will hasten decay in the future, remain to be dealt with."

The ornate interior of one of the grandest Islamic monuments - the complex that includes the mausoleum of great Mameluke Sultan Mansur Qalauun who ruled Egypt in the late 13th century - is being destroyed. Delicate inlay work of mother-of-pearl and marble on the walls is lifting and cracking in many places because of the corrosive effects of sewer water.

Dr Salah Lamel-Mostafa, a freelance consultant and adviser to the Egyptian Antiquities Department, believes that the rising water table beneath the old city and an inadequate drainage system - thousands of gallons of wastewater finds its way each day into the saturated sub-soil -

constitute the gravest threat to the old monuments.

The Madrasa of Qalauun and its ancillary buildings are surrounded by contaminated water that is rising steadily by the year. "We have here a swimming pool underneath," declared Dr Lamel-Mostafa. "If we open the grave of Qalauun it would be full of water."

Nearby, at the Wahala (merchant's hostel) of Qaitbay adjacent to the northern gate of Bab al-Nasr (one of three surviving city gates of the 9th century encircled medieval Cairo) another problem exists. Families of sometimes 10 or more people are crowded into small cells that were used by travelling merchants. "People live in these buildings, they play in the same place, they cook in the same place, they sleep in the same place," declared Dr Lamel-Mostafa despairingly.

John Rodenbeck, a Professor of English at the American University and one of the founders of the Society for Preservation of the Architectural Resources of Egypt, says that the problems are so big and politically sensitive - Egypt's housing shortage is exerting tremendous pressures on the authorities - that what is required is the creation of a powerful agency to take control of the preservation effort.

A problem cited by Mr Rodenbeck in mobilising domestic and international support to rescue old Cairo is that attention tends to focus on the Pharaonic monuments at the expense of the Islamic ones. It is Egypt's fortune and misfortune to be burdened with two legacies, one competing in a way with the other.

Dr Lamel-Mostafa says that of about 600 monuments classified in the early 1950s as worthy of preservation about 200 have disappeared altogether. These structures have either fallen down through neglect or have been demolished to make way for new buildings. "The lack of public awareness is the major problem," he declared. "There is no system here for the preservation of historic buildings. It's a national heritage, and we have to fight for it with our hearts."

Tony Walker

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A FINANCIAL TIMES SERIES: Part 1

EUROPEAN FINANCE AND INVESTMENT

Ireland



Ireland has ambitions to win a profitable share of the European market in financial services, with improved telecommunications technology intended to offset geographical disadvantages. Financial services are also seen as an important chance to develop new areas in skilled labour.

THESE ARE heady times in Ireland. There is talk of an economic revival. New car sales, particularly of luxury models, have never been better. At one stage in January, Mercedes dealers reported running out of stock.

Much emphasis is being put on Ireland's emerging role in Europe. Ireland holds the Presidency of the European Council for the current six-month period and has briefly been transported to the centre of Europe. In June, Dublin will host a summit meeting of EC countries.

Dublin's International Financial Services Centre, nearing completion on the banks of the River Liffey in the centre of the city, is seen as a symbol of the new Ireland. It will play a central role in Ireland's ambitions to gain a substantial slice of the growing European market in financial services.

In the old days, the value of the punt - the Irish pound - was as unpredictable as the Irish weather. Now, 10 years after the historic break from sterling, and the subsequent decision by Ireland to leapfrog the UK and go into full membership of the European Monetary Union, it is strong and stable.

By hitching its monetary fortunes to those of the Deutschmark, Ireland has confirmed its European credentials and signalled its intention to build up its continental connections.

Technology is being brought into play in order to offset the country's geographical disadvantages. Ireland's telecommunications, not so long ago something of a businessman's nightmare, have been radically improved and are now the equal of anywhere in Europe.

But it is certainly not all good news. A walk through Dublin's streets provides a snapshot of the present state of economic performance. In parts of the city, there has

been a property boom over the last two years. New office buildings are being developed. Georgian terraces are being restored. The gentrification of the well-heeled shopping area south of the River Liffey, continues.

But progress in other areas, particularly on the north side of the Liffey, is not so impressive. Many streets are full of run-down or boarded-up houses. Building sites have become desolate wastelands. So goes the Irish economy, with an excellent performance in parts - but progress has been patchy and still lacks a firm foundation.

There can be no doubting the achievements of the past few years. At the beginning of the 1980s, inflation was more than 20 per cent, the balance of payments deficit was growing larger by the year, and Exchequer borrowing was out of control, with a debt crisis of Latin American proportions on the horizon.

Ireland enters the 1990s, however, in considerably better shape. A comprehensive programme of Government

spending cutbacks has cut the Exchequer borrowing requirement down to 2.4 per cent of GNP. Inflation is officially forecast to be little more than 3% this year. Exports have shown their best ever growth - up from £10.6bn in 1987 to £12.2bn in 1988 and an estimated £14.3bn last year. The trade surplus is now running at well over £200m per annum.

The state has historically acted as the engine of growth in Ireland. Yet despite a broad range of government cutbacks in recent years, there has been substantial overall economic growth. In each of the past three years the Irish economy has grown by an annual average of nearly 4 per cent.

There have been other achievements. The tax collection system has been reorganised and revenues have increased considerably. The new economic confidence has been reflected in moves to do away with Ireland's long-standing exchange controls. Irish interest rates, though now up to 12 per cent, have finally been decoupled from Britain's. It all adds up to what the

OECD has described as "a remarkable turnaround in both domestic and foreign confidence in the Irish economy." According to Mr Albert Reynolds, Ireland's Minister for Finance, "the national morale was never as high."

But Ireland has a lot of catching up to do. The profitability of earlier years is still being paid for. The national debt, at £25bn (servicing charges alone are more than £2bn per annum or £40 a week for every worker in the country) is a serious brake on development.

Ireland's continued economic growth is heavily dependent on export performance. Between 60 and 70 per cent of industrial production is exported. A recession elsewhere, particularly in Britain, which accounts for 34 per cent of exports, could cause Ireland to stumble.

The Government, however, has yet to deliver on its side of the bargain. Meanwhile, a modest improvement in the pace of job-creation has not kept pace with population growth. Ireland's unemployment rate is now 13 per cent, twice the EC average. Emigration, the destructive historical cure for Ireland's economic and social ills, has returned to plague much of the country. About 40,000 people are leaving each year, and, since 1983, one citizen in 20 has left.

The Irish tax system has tended to dictate against job creation. There have been some reforms, and tax rates have come down. Over the past two years the standard rate of income tax has fallen from 35 to 30 per cent. But Irish workers, particularly those in the PAYE sector, are still among the most highly taxed in Europe. In return, they receive public services which are at best mediocre, compared with those of many EC countries. It is recognised by the Irish



Taking shape: the new International Financial Services Centre in Dublin

Government that failure to harmonise tax rates with those typical of the rest of the EC will damage the country's prospects. Rates are being edged down, as in last month's Budget, but there is a long way to go, and the burden remains especially high on the middle-income white collar workers. This could interfere with the plans for expanding the financial services sector.

The original aims of Dublin's International Financial Services Centre were job-creation and urban renewal. Earlier investments in manufacturing have been criticised for being capital-intensive, rather than labour-intensive. The development of the financial services sector represents in part an attempt to change the emphasis. The Government can congratulate itself on developments so far. To date, more than 80 companies have been approved to trade in the Centre. While Irish institutions have led the way, the Centre has attracted many leading international names. Those already committed to the Centre

have promised more than 1,500 jobs over the next three years.

The Government points to the 10 per cent corporation tax and other fiscal advantages of the Centre. Most of all, it emphasises that with 50 per cent of the Irish population under the age of 25, there is a pool of freshly-educated people available.

But some institutions will be looking for people who already have experience in sophisticated financial trading. That might mean bringing numbers of Irish dealers back from London: Irish people who have established themselves overseas might not be willing to re-enter the high domestic tax regime. Ironically, it may be easier to attract foreigners who, if well-advised, can escape the worst impact of Irish tax rates.

There are also questions about the regulatory aspects of the Centre. In recognition of Ireland's peripheral location and the need to develop its industry, the EC has allowed Ireland a continuance of its 10

per cent corporation tax, until the year 2000. Originally restricted to manufacturers, this concessionary rate has been extended to specified financial services activities.

Since joining the EC in 1973, Ireland has received a proportionately higher level of Brussels funds than any other EC country. There are some who would say much of this money has been misused, and has been spent for short-term political gain rather than on projects capable of generating lasting economic dividends.

A considerable amount of recent academic study points to the fact that despite the recent improvement, Ireland's economic performance in the longer-term has been poor, compared with many other countries. Professor Joseph Lee, of University College, Cork, whose new book appraising Ireland's twentieth century performance, says the country's traditional grievances against history have been replaced by a grievance against geography, particularly in the context of the EC.

"Ritualistic invocation of the injustice of the 'periphery,' however useful in short-term diplomacy, continues to foster a mentality more conditioned to search for excuses than to solve problems," says Professor Lee.

Integration into Europe poses serious social, as well as economic, challenges. Ireland is in many ways the least European of the EC countries. It is not cosmopolitan. It has traditionally not been part of the European mainstream, with closer links to the United States than to the European continent. The Government realises that attitudes must change. It sees the development of its financial services industry as an important part of its European integration. The Government knows that if Ireland fails to grasp the European opportunity, the country could remain not just on the geographical periphery, but on the economic and social margins of Europe for many years to come.

KIERAN COOKE

IN THIS SURVEY



Traders on the Dublin Stock Exchange

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Political and economic power rests in Dublin

THERE have been a few turbulent times in Irish politics over the past 12 months.

In the middle of last year, Mr Charles Haughey, Prime Minister and leader of the Fianna Fail Party, called an election. In office for just over two years, Fianna Fail seemed certain of winning.

Opinion polls had shown that the Government's policies of cutbacks and fiscal belt tightening, mainly aimed at controlling the £52bn national debt, were supported by a broad section of people.

Mr Haughey's personal popularity had never seemed higher. But the unexpected happened. Fianna Fail lost votes in key marginal constituencies and won only 77 out of the 166 seats in the Dail, the Irish Parliament. Mr Haughey had boasted that Fianna Fail had "saved the country from bankruptcy". He had talked about the return of economic confidence. But the electorate was unimpressed. Voters used the elections to direct anger about local issues at national politicians.

Mr Haughey's Government was accused of letting the health service go into decline, of neglecting a whole range of local services, of being obsessed with the macro-economic picture while ignoring the effects of Government's cutbacks at the local level.

Mr Haughey was forced to eat humble pie. For the first time the Irish people had failed to give him a parliamentary majority. Mr Haughey was forced, briefly, to step down.

For Fianna Fail, the events

Politically, Ireland is ruled by a broad consensus of the right, fundamentally conservative, says KIERAN COOKE

In mid-year were equally traumatic. Fianna Fail ("The Warriors of Destiny") had been in power for a total of more than 40 years since it contested its first election in 1932. It had always seen itself as the natural party of power - more a movement than a political grouping.

Now, for the first time in its history, Fianna Fail was forced into coalition (with the small Progressive Democrats Party, itself a Fianna Fail breakaway group). There were dark whispers from the Fianna Fail ranks, even hints that Mr Haughey, the Houdini of Irish politics, might have to give up the party leadership.

There was talk of moulds being broken, of a new modern look to Irish politics. Yet very little has changed. While the Labour Party and the more left-wing Workers Party have increased their Dail seats from 15 to 22, there is little sign of a left/right split on the Irish political map.

Ireland is ruled by a broad consensus of the right, fundamentally conservative, with a very gradual approach to change. Differences between the policies of the present Fianna Fail/Progressive Democrats coalition and Fine Gael ("The Tribe of the Goats"), the main opposition party which has 55 Dail seats, are more in tone than in substance.



Prime Minister Charles Haughey: "Politics is my life"

Visitors often remark on the overwhelming cynicism they find in Irish political life. Even 15 per cent unemployment and continuing large scale emigration seem to be accepted with little show of public anger.

The system, at present, does not allow for radical change. Ireland has little local government. There was anger at what was seen as the lack of local consultation over Ireland's application for nearly £30m of EC Structural Funds, designed to help development in peripheral areas.

Almost all power, political and economic, rests in Dublin. An intricate system of patronage and "clientism", not policies, wins politicians their votes. The danger is that a large slice of the population, particularly the poor and the unemployed, feels it has no political voice.

For the time being, Mr Haughey, 64, seems secure. He survived a serious illness at the end of 1988 and seems to have regained his enthusiasm for his work, particularly his present role as Prime Minister in charge of Ireland's presidency of the EC.

When asked recently if he would retire at the end of the Presidency in June, Mr Haughey's reply seemed clear - "politics is my life. What else would I do?"

But as time goes on there is talk of the succession. Waiting eagerly in the wings are Mr Albert Reynolds, Minister for Finance, and Mr Gerry Collins, Minister for Foreign Affairs. Mr Bertie Ahern, Minister for Labour, is seen as a younger, outside contender for the Fianna Fail party mantle.

Mr Reynolds is a comparative newcomer to the Irish political scene. In previous incarnations he has been an owner of dance halls, a meat trader and still runs a multi-million pound pet food business.

But in just over 10 years in the political mainstream, he has risen fast. An affable, very approachable man, Mr Reynolds typifies a certain type of Irish politician who flatters with familiarity. He is seen to have performed well as Minister for Finance, a job he approaches very much in the spirit of the businessman, rather than the politician.

Mr Collins has a long Fianna Fail pedigree and is one of Ireland's more experienced politicians. Though less publicly popular than Mr Reynolds, he is seen by some as a more adept political tactician.

Mr Collins has gained considerably in status from his present role as Minister of Foreign Affairs during the Irish Presidency.

Prospects for the International Financial Services Centre are encouraging, says Barry Riley

Outlook for new centre appears bright

ON THE banks of the River Liffey, in a previously run-down district of the city, the first building in Dublin's International Financial Services Centre is approaching completion, on the site of the old Custom House Docks.

This first unit, snapped up by the Allied Irish Banks Group, offers 100,000 square feet, out of some 700,000 square feet of office space now under construction, with an eventual total of 1m square feet by 1993. The overall cost of the project, as occupants install the latest high technology, could run to £450m, making it Ireland's biggest-ever development.

All the signs are that the scheme, skilfully marketed by the Irish Development Authority around the globe, is achieving great success.

As many as 84 companies have received approval for activities in the Centre, and many others are involved in preliminary talks. Some 43 are at present trading off-site as they are permitted to do pending availability of space within the development.

Barry Russell, head of the IDA's financial services programme, talks enthusiastically about the IFSC's prospects. He anticipates that another 100 projects will be recommended over the next 15 months.

"We are delighted with the way it's going," he says. "Our target of 5,000 jobs by the end of 1993 will be easily achievable."

A leading Dublin stockbroker, Dermot Desmond, chairman of NCB Group, was a prominent supporter of the Centre from the beginning.

"We've passed the critical time now," he suggests. "We can make this as big as we want it."

But he adds that there will be a need to be flexible, at a time when financial services are driven by the unpredictable forces of technology. Eventually, he thinks, the Centre will be dominated "by businesses that we are not even thinking about at the present time." He points to the way that corporate treasury functions, for instance, are being attracted to the favourable environment of the IFSC.

The enthusiasm of Dublin financiers is understandable.

The Centre should put the Irish capital firmly on the international financial map

They are looking forward to the lucrative volumes of direct and indirect business that the Centre will generate - it should put the Irish capital firmly on the international financial map. But there remain several uncomfortable contradictions.

Fundamentally, the scheme is a corruption of much that the European Community stands for. Access to the Single Market from the beginning of 1993 is one of the main carrots being dangled to attract international firms. Yet the Centre establishes new and artificial barriers between domestic and international business in Ireland. On this basis, Dublin can only get as big as the rest of the EC will tolerate.

Secondly, there is an element of underlying confusion over whether the IFSC is a fiscal regime or an urban renewal project. Firms are required to move into the Centre within six months of space becoming available.

Obviously, this is necessary in order that the development should prove viable. But there is the risk that the size and nature of the international financial services industry in Dublin could be unnecessarily constrained by the physical dimensions of the Custom House Docks site itself.

In fact, adjacent land downstream may well be made available for further development, and no doubt later firms could be permitted to remain off site for a protracted period. All the same, costs could be fairly high, and might encourage financial services firms to concentrate on employing small numbers of highly-paid, highly-skilled professionals when Ireland's more pressing need is for many thousands of lower grade jobs.

Ideally, the "front office" operations in the Centre will be twinned with labour-intensive "back office" elsewhere in Dublin or indeed in the Republic at large. But this will require complex rules to prevent leakage between the domestic and international sectors.

A key attraction of the Centre is the availability of a 10 per cent tax rate for qualifying companies. This is an extension of the low tax regime first applied to manufacturing companies in Ireland, and now being extended selectively to

service companies. The 10 per cent rate has been agreed by the European Commission up to the year 2000 but not beyond. This spring, the Irish Government will be considering its strategy for the period after 2000, and discussions will take place with the Commission during the summer.

Albert Reynolds, Minister for Finance, is adamant that Ireland's problem of "peripherality" in relation to the rest of the EC will justify continued concessions so that it can have a chance of coping with its built-in disadvantages.

"We're going to need something," he insists. He points out that Ireland put immense sums into bringing its telecommunications systems up to high specifications during the 1980s - "this is part of the payoff from making this investment," Mr Reynolds says.

In deference to its fellow EC member-states, Ireland is taking care to regulate its new Centre carefully, mainly through the Central Bank of Ireland, and only top quality firms are being allowed in. The emphasis is firmly on job creation, and brass plate operations will be excluded - "we don't want to promote it as a tax haven," insists Mr Reynolds.

The risks of tax-driven activities were highlighted by a major skirmish with Luxembourg last month when the Grand Duchy hit back at lending schemes between Luxembourg banks and Irish lending companies in Dublin and Shannon. As much as £1.5bn may

have been involved in reciprocal deals which sheltered the profits of Luxembourg banks and provided artificially cheap finance for the leasing businesses.

According to Willie Holohan, tax manager at Price Waterhouse: "The Luxembourg experience may scare people away from blatantly tax-based schemes."

The Centre has attracted very broad international support, with participation by the Germans and Japanese, nationalities which in the past have been slow to respond to opportunities in English-speaking offshore centres.

A key attraction is the availability of a 10 per cent tax rate for qualifying companies

Local support that eight of the top ten German banks, and several German life assurance companies, will come to Dublin. Deutsche Bank, the biggest German bank, has not yet announced a project, but its representatives have been spotted around town.

Knut-Richard Mathiesen, managing director of Deutsche Bank's new international finance and asset management operations, is enthusiastic about Dublin, which he sees as genuinely extending the opportunities open to the bank. Within a year of starting up he has a staff of 15, and soon will have 20, with growth proving especially fast on the asset management side.

His employees are "very diligent, reliable and eager," he finds, and Dresdner has agreed to take part in a graduate training scheme.

The main disadvantages are very high personal tax rates, and the lack of convenient morning and evening flights to many important Continental centres.

The progress of the IFSC is steered by a committee which draws on many representatives of the financial community. One is Ron Bolger, a partner in the leading accountants KPMG Stokes Kennedy Crowley - "it's a very exciting and interesting committee to sit on," he says, insisting that it adopts a flexible and unburdened approach.

He points to the beginnings of a strong Japanese presence, but the British have been curiously reluctant to set up in Dublin, and the French have been slow too, although he claims: "We are beginning to see regular visitors from France."

The outlook for the Dublin Centre certainly appears to be bright. The double objective of attracting offshore financial services businesses and revitalising a decaying part of town (about within a few minutes' walk of O'Connell Street) is being achieved.

But the Ireland-Luxembourg leasing tax rumpus, and the decision last month by Albert Reynolds in his Budget to impose a 3 per cent front end tax on all units purchased by Irish residents, suggest that success at the Custom House Docks site will not be achieved without some stresses and strains.

The Financial Services Industry Association

Trend-setting forum

THE FINANCIAL Services Industry Association (FSIA) was established in 1984 to promote and develop the rapidly expanding financial services industry in Ireland.

The association is the first of its type in Europe, and it represents the case for treating international financial services as exports.

Unlike many manufactured exports, financial services have little or no import content, and they can be set up relatively cheaply. The idea was welcomed by the incoming Government, which subsequently devoted considerable resources to developing the financial services industry.

The FSIA has since turned its attention to related matters, such as exchange controls, the training of specialists for work in key areas of the industry, and regulation.

At present, the Irish financial services industry is regulated by three separate authorities. The Central Bank is the main regulatory body, supervising banks and building societies, and the forward markets.

Two government departments are responsible for insurance companies and the stock exchange and gilt market.

The FSIA would like to see more unified regulation, and a greater degree of co-ordination between regulators and the industry - "we have been examining regulation in other countries, such as Norway,

Luxembourg, Denmark and Singapore, to learn how to establish a framework for a more unified regulatory system," says Mr Crowley.

The association has also been active in outlining the needs of the industry to Telecom Eircom, the state telecommunications organisation.

A survey undertaken by the FSIA at the end of 1989 showed that while many financial services companies were satisfied with recent efforts to update the telecommunications system, further improvements such as the introduction of a central fault-handling service would be necessary to meet the industry's future requirements.

In addition, the association has held discussions with the European Commission concerning the preparation of EC directives for the financial sector.

"I think the Irish Government has recognised the role that financial services can play in providing employment and contributing to economic expansion generally," says Mr Crowley.

"The FSIA is now concentrating on ensuring that we have an environment in which the financial services industry can continue to grow, to maintain the momentum that has been built up over the past few years."

John Maher

Participating companies

INTERNATIONAL financial services companies at the Financial Services Centre, Dublin - as announced on January 18, include the following:

- AIB International Financial Services Co: international asset financing, fund management and related activities.
- Alexander and Alexander: risk management and captive insurance management services.
- Allen, McGuire Partners: management buyouts and leveraged buyouts.
- Allied Irish Bank International: treasury, investment management, asset financing.
- Allied Irish International: financial services, including asset financing and related financial operations.
- American International Group: fund management and insurance services including captive insurance management.
- Bank of Ireland: treasury corporate finance management, asset financing.
- Bank of Nova Scotia: general banking services.
- BBL Finance Ireland Ltd: general banking services.
- BCL Entertainment Corp: financial services; the entertainment industry.
- BNL AG: captive insurance operations.
- British Land Company: group treasury.
- B.V. Financial (Ireland): corporate fund management.
- Cambridge Finance International: asset financing, treasury management.
- Capital International Financial Services: asset finance arrangement and advisory services.
- Chase Manhattan Bank: securities trading, bank treasury,

finance operations, financial engineering/finance at the Financial Services Centre, Dublin - as announced on January 18, include the following:

- CND Brokers: foreign exchange currency deposits.
- Church and General: insurance/reinsurance.
- Citicorp: financial engineering and asset financing.
- Clydesdale Bank: asset management and fund management.
- Cuyler Hamilton International: re-insurance broking, captive insurance management, insurance management services.
- Daiwa Securities: fund management.
- Dey International: international stockbroking.
- Deutsche Bank AG: foreign financing/group financing and fund management.
- Eagle Star International: financial services: fund and investment management, captive insurance management.
- EBSA Insurance: captive insurance.
- Ericsson Treasury (Ir): asset financing, treasury management and related activities.
- Fitzwilliam Foreign Exchange and Currency: foreign exchange, currency deposit, broking.
- Gordon Ltd: trading and dealing, in foreign exchange, bank treasury products and services.
- General Electric Finance (Ir): corporate treasury management, non-life insurance, including M.A.T., asset financing, fund management.
- IFA Finance Co: fund management, leasing, factoring, lending, trade financing.
- L.C.C.: asset financing.
- International Bloodstock Finance: bloodstock finance and insurance.
- International Health Benefits (Ir): health, medical and travel

insurance/reinsurance and related services at the Financial Services Centre (KCBS):

- K.B. Financial Services Ireland (KBSFI): asset financing, corporate lending.
- Lawson Mardon Group: corporate treasury.
- McKinney Properties: group treasury and treasury advice services.
- Mitsubishi Trust & Banking Corporation: to be announced.
- Nindori Computer: international factoring, international insurance consultancy.
- North Wall St Investment Co: asset financing.
- Orix Ireland: asset financing.
- Reflex International: asset financing, emphasis on IBM equipment.
- Sennar International (Ireland): investment management.
- Seaford Group International: captive insurance management.
- SENSER (Scandinavian Insurance Services): captive insurance management.
- Sunbroom Finance (Dublin): activities to be announced.
- Uster Investment Bank: international lending.
- Wang International Financing: asset financing with emphasis on Wang equipment.
- Willis Wrightson Management (Dublin): captive insurance management.
- Wurtembergische Paribas: investment management.

Source: IDA.



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John Maher

BANKING

The horizons widen

FOR IRELAND'S banks, the development of the International Financial Services Centre in Dublin has provided an opportunity to expand in new areas of international business. But because they are already so well-established in Ireland, they must cope with considerable problems in drawing the line between domestic and overseas activities.

Moreover, as the major existing employers of staff with financial skills they face a considerable risk that experienced personnel will be poached away to staff-up the scores of new businesses now being formed in Dublin by overseas financial institutions.

First off the mark is Allied Irish Banks, which has bought the first block in the Centre for a total cost, after fitting out, of some £140m.

With construction almost completed, AIB is due to begin transferring its capital markets activities into the 100,000 square foot in April.

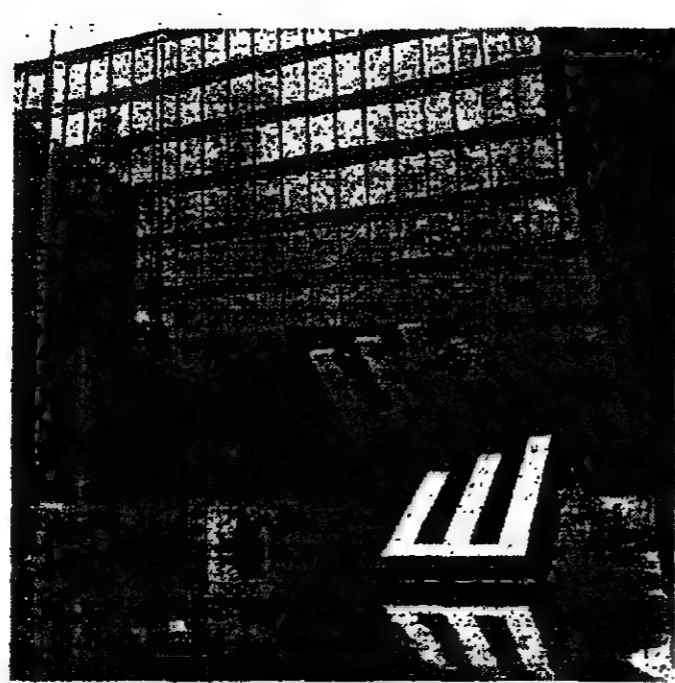
The other big domestic bank, Bank of Ireland, is a little way behind, but will also be making a major commitment. It has bought a later block which will be due for occupation some time during 1991.

These two banks dominate the banking business in Ireland. Bank of Ireland is neck and neck with IAB in retail banking within the Republic, but AIB has more substantial overseas interests - it owns First Maryland Bank - and its stock market capitalisation is about 50 per cent higher.

Having saturated the Irish market, where their combined market share is between 80 and 90 per cent, depending on how the sector is defined, the two banks have long sought to expand abroad. They have become niche players in the UK, seeking an ethnic role amongst the Irish community, but also aiming for other specialist areas, such as small company finance.

They were priced out of the bidding for Yorkshire Bank, but they are amongst the foreign banks now seeking to acquire building societies in Britain.

They are playing regional roles in the US. AIB has done well with its Maryland purchase, and it took 100 per cent control last year, having first



The Bank of Ireland's headquarters in Baginbun Street, Dublin

taken a minority stake in 1988. Bank of Ireland has lagged behind with its 1988 exposure to First NE Bank of New Hampshire, which has recently suffered from defence industry cuts and real estate weakness in New England.

In one important respect, however, Bank of Ireland has scored over its rival. It has achieved considerable success with its launch of a life insurance company, Lifetime, some 2½ years ago. According to Lifetime's chief executive, Seamus Creedon, his company has already taken between 10 and 15 per cent of the Irish market.

But he adds: "Our real growth opportunities lie outside Ireland." A UK offshoot is now being planned, and could be opened during the coming summer, selling initially through the bank's 80 branches in Britain and 40 in Northern Ireland.

AIB is also planning to establish a life company. But it has been inhibited by its bitter experiences over insurance Corporation of Ireland, which it bought in 1983 but was forced to write off for more than £200m in 1988. The Irish Government picked up the pieces. Since then, the Irish regulators have been nervous

about the involvement of banks in insurance. Lifetime, for instance, is only now being permitted to enter the pure life market as opposed to unit-linked investment business. But with the banks so heavily involved in house mortgage lending there are strong reasons for them to add life insurance to their in-house product range.

Outside the two big banks, there are a number of smaller contenders. The building societies, as in the UK, are to be permitted to widen their range of services. Then there is the National Irish Bank, now owned by the National Bank of Australia, and Ulster Bank, a part of the National Westminster Group.

Ulster is one of the banks which is setting up in the IFSC. Desmond O'Shea, chief executive of Ulster International Finance, has already secured a licence to develop a broad range of lending activities under the IFSC's 10 per cent tax umbrella, and the Ulster group is also looking at possible opportunities in treasury operations and investment management.

"We see the IFSC as offering tremendous potential for the group as a whole," he says.

There is a huge opportunity, he suggests, to service the requirements of incoming foreign firms. "The centre is going to gather a momentum of its own," Mr O'Shea forecasts.

He discloses, however, that negotiating a licence for a treasury operation has taken a long time. This is because of the need to cope with both qualifying and non-qualifying activities.

AIB has also needed to set up a system of allocating deals to domestic and international categories in order to fit its treasury operations into the IFSC. But Thomas Barry, managing director of Allied Irish International Financial Services, does not anticipate any difficulties with the tax issue.

"They seem to be very supportive," he says. "The key aspect is agreeing the wording of your licence."

Altogether, AIB is planning to have 600 staff working in the AIB International Centre within two years. Apart from treasury operations, it will be making a major effort in fund management, and also in global custody services which it will hope to supply to various other fund management firms. In the same field, it has entered into a formal link with Commerzbank by taking a minority 25 per cent stake in the German bank's CCM Fund Management.

As for Bank of Ireland, plans are going ahead for the 60,000 square foot block, to be ready in about 18 months - "we are very bullish about the Centre," says Patrick Mulhally, general manager of the International banking division.

Operations earmarked for the IFSC include various types of asset financing, together with a major treasury function and a substantial investment management business.

"As the concept of the Centre is expanding we are finding new things to go down there," remarks John Byrne, a director of Bank of Ireland Corporate Services.

Much of Bank of Ireland's international activity will be focused in the Centre, although it believes it will still need a presence in London and New York, and offshore in the Isle of Man and Jersey.

Barry Riley

Economic incentives in the Shannon region

Campaign to attract further financial services

IRELAND is one of the developed world's more centralised societies. Political and economic power rests overwhelmingly in the Dublin area. Local government has few powers and officials still find that a journey to the capital is necessary for decisions on relatively minor matters.

But the Shannon region, an area of more than 6,000 sq kms in the southwest of Ireland, has over the years fought an

effective campaign against the power of Dublin. A powerful group of local politicians and other interested parties have ensured that all transatlantic flights into and out of Ireland continue to stop at Shannon airport. While the mandatory stop-over brings important revenues to Shannon, it is something of an anachronism.

It means aircraft flying from New York to Dublin have to stop at Shannon, then take off for a further 30-minute hop to the Irish capital.

Dublin continues to be the only capital in western Europe without a direct transatlantic air connection. The critics say this has a negative impact on tourism development.

But Shannon's defenders say the airport has served as a catalyst for other developments, providing much-needed jobs in an area of high emigration and unemployment.

The world's first duty shop was started at Shannon in the 1950s. The Shannon Free Zone was the first of its type and has been copied around the world. Many companies have been attracted by a combination of a low tax regime and grants packages, plus an availability of skilled staff, to set up not only in the duty free zone, but elsewhere in the Shannon region.

Within the duty free zone

companies specialising in distribution operations pay only a 10 per cent corporate profit tax. There are now approximately 100 companies within the zone, employing a total of 5,000 people.

Leading employers include Aeroflot, the Soviet airline (which has an extensive servicing operation at Shannon) and a number of other enterprises associated with the aircraft business.

But more than a thousand work in international services and about 400 of these in financial services.

Foremost among these is GPA, the world's leading aircraft leasing group. GPA has over the years diversified its operations considerably and prefers to be described as a financial services company which combines expertise in both aircraft and banking.

Due to the size and complexity of GPA's operations - it now has more than 200 aircraft on lease to 64 airlines in 35 countries - many of its financial services activities are being transferred to other centres, particularly to New York.

But Shannon has attracted other financial services companies. Leasing companies have been particularly successful, though as certain tax advantages have been withdrawn these are now being forced to diversify into other areas.

The Shannon Free Airport Development Company, which now has responsibility for co-ordinating economic development throughout the Shannon region, says much of its emphasis in the financial services sector is on "start-up" companies.

While Dublin is intent on attracting big names, Shannon is more willing to accept relatively unknown companies. "This does not mean we are settling for second best or that our regulations are not tight," says Mr Arthur O'Keefe, manager of International Services at Shannon Development.

"We are not rivals to Dublin. Shannon can be complementary," he says. "It is just that we would prefer a start-up operation that created 20 jobs than a big name that would only create three jobs."

Shannon offers the same tax incentives as Dublin and rents which, at an average of Irish pounds 12 per sq foot, are half the price of those in the capital's International Financial Services Centre.

There are other advantages seen as the country's version of MIT.

Other expertise has been developed in the Shannon region. One of the area's growth industries has been the transatlantic processing of everything from magazine subscriptions to insurance claims.

Several companies now import material on daily flights from North America, process it, then send it, by way of computer lines, back to the US.

Neodata employs 600 people in Limerick city and elsewhere in the region. Each morning, boxes of correspondence dealing with magazine subscriptions, payments and complaints arrive at Shannon.

This material, from more than 250 different US magazines, ranging from *Rolling Stone* to *Cat Fancy*, is then sorted, queried and complaints answered on computer, then fed back to computers at company HQ in Denver, Colorado.

"We have the skills and we have the labour force here," says Mr Michael McMahon, Neodata's managing director in Ireland.

"In the US, there are staff shortages for companies like ours. Here, I just whisper down the corridor when I want extra recruits."

Source: Shannon Development Corporation.

Kieran Cooke

Financial companies in Shannon

FINANCIAL companies in Shannon include the following - their activity areas, in many cases, include asset financing and leasing.

Activities of companies involved in other areas are shown in brackets:

- International Aeroplane Company.
- International Aircraft Services.
- Irish Security Life, (reinsurance).
- QBE Insurance and Reinsurance (Europe), (reinsurance).
- Sentinel Investments.
- Sermon, (fee-based services).
- Shannon International Leasing and Financial Services.
- Stokes Kennedy Crowley (fee-based services).
- Wang International.
- Welltrade.
- Wright Investors Services, (financial data analysis).

- Brother International, (back office operations).
- CFI International, (fee-based services).
- CLF Yeoman.
- Copex International Finance and Trading.
- Cothingham.
- GPA Group and Subsidiaries.
- Hillview Financial Services.
- HL Commodities Foods, (international food brokerage).
- IMT International.

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IRELAND 4

EUROPEAN FINANCE AND INVESTMENT

PROFILE: ULSTER INTERNATIONAL FINANCE

Working hand in hand with its parent

NOTHING better illustrates the sometimes slightly surreal nature of Dublin's financial services centre than the position of one of its first tenants, Ulster International Finance.

UIF is a subsidiary of Ulster Bank, and is the bank's arm in the centre - generally known

as the Custom House centre from its location on Custom House Dock.

But Ulster Bank is itself a wholly-owned subsidiary of National Westminster. UIF admits it will be doing the bulk of its business through the NatWest network, and also admits that many people in NatWest have never heard of UIF, or even of the Custom House centre.

"There is a marketing job to be done within the NatWest group to have them examine the benefits of the Custom House for them," says Michael Drew, assistant director at UIF in charge of marketing.

"The senior people are beginning to recognise the track record we have established since we began operations. We are getting more and more calls from people who have heard about us and want to know what the possibilities are."

Patrick Flynn, UIF's manager, says British institutions have been slow to see the advantages of the Dublin centre - "the Germans and the Japanese have been taking the lead, but I think awareness is growing fast among UK companies. The sheer number of projects is making people take it seriously."

Ireland's membership of the EC gives Dublin advantages over the Isle of Man or the Channel Islands which are not full members, he says.

UIF's main activities are tax-based lending and asset financing, mainly leasing. But it is also developing treasury functions for corporate clients and plans to market unit trusts

from the centre. Ireland has double taxation treaties with over 20 countries, says Mr Drew - "this allows us to put together tax-efficient packages for clients in those countries, making use of the centre's 10% tax rate."

"So far, UIF has concentrated, apart from the UK, on Germany, France and the Scandinavian countries and deals mainly with NatWest clients," he adds.

"We believe we have good products, but we need NatWest to provide the introductions, so we often go on joint calls with the NatWest representative. They can also do the initial screening for us so that we are not wasting time talking to the wrong people."

They see considerable scope for UIF in carrying out treasury functions for companies which may be too small to do it themselves.

"This is something the Industrial Development Authority (IDA) is encouraging in the Custom House because of its employment content," says Mr Flynn. "NatWest's corporate customer-base makes it a major opportunity for us."

They are also working with another bank subsidiary, Ulster Investment Managers, to

'We have good products, but we need NatWest to provide the introductions'

establish fund management in the centre - "UIF have a lot of experience in this field in Ireland. They are actively working with us in developing plans to market unit-trust type products from the centre," says Mr Drew. These would be aimed mainly at the UK market but could be sold anywhere in the EC except, ironically, Ireland.

Custom House companies are not allowed to operate domestically - "we have to put a lot of effort into developing new products and services," says Mr Drew. "One of our main jobs is to think up further projects for NatWest and to sell the ideas internally

within the bank.

"In this they are helped by the willingness of the Irish authorities to licence new products and services from existing operations. They take a very flexible line. There are very few rigid rules, apart from the regulatory ones, and that

'We have to put a lot of effort into developing new products and services'

makes sense for a new concept like this," he adds.

Although the Custom House has succeeded in attracting close to 100 companies, there is some criticism of the employment content - job creation being one of the main justifications for the concept. UIF, for example, has a staff of only eight. But they argue that numbers will expand and that there are spin-off jobs outside the firm.

"Our legal and accountancy advisers get a lot of work from our activities," says Patrick Flynn, "although they are not on our payroll. There is also a lot of administrative work, which employs people in Ulster Bank."

UIF, like all the other Custom House tenants, is not actually on the docks site because the first block will not open until the spring. Instead, it operates under the licensing terms from offices in Dublin's Canada House, above the Canadian Embassy.

"We will probably be moving in 1991," says Mr Flynn. "We have to go there under the licensing rules but the rent will probably be more expensive than here."

"Some people talk about the advantages of a concentration of brainpower in the centre, but I don't think it will happen like that. However, Ulster Bank will probably move its treasury and fund management operations to the new office, even though they do not come under the special Custom House centre terms."

Braden Keenan

Barry Riley looks at competition in captive insurance

Irish eyes on Continental market

WITH THE establishment in Dublin by BMW, the German motor group, of a captive insurance company to cover its worldwide insurance requirements, Ireland has signalled its ability to carve out a slice of the rapidly growing but competitive business of offshore insurance.

There is nothing new about captive insurance, and various other centres are well established, notably Bermuda (which plays host to well over 1,000 captives) and the Cayman Islands in relation to the huge American market. In Europe, Guernsey and the Isle of Man have been developing this business for a number of years, while Luxembourg is also prominent in reinsurance captives.

So given that in the UK, for example, 66 of the top 100 companies are thought already to have established captives, is Dublin a little late into the game?

Norman Hannagan, managing director of Alexander Stenhouse, which has recently set up a captive management operation called Alexander Insurance Managers (Dublin), is optimistic about the potential for Ireland to tap the Continental market, pointing to the BMW deal (although

that is managed by a rival broker, Sedgwick).

"There has been a tremendous increase in awareness of the possibilities of captives in Europe," he suggests. "They've only been scratching the surface."

Mr Hannagan accepts that it will require a substantial marketing effort in order to put Dublin on the captive insurance map.

It will require substantial marketing to put Dublin on the captive insurance map

"We need to get some of the major international names in," he says. But the quality of the companies he and others are negotiating with is, he insists, "tremendous".

"Once the top names have been attracted there will be a snowballing effect," says Mr Hannagan. "Every captive that is found is a little bit of PR for the concept of captives."

Captive insurance offshoots are set up by large companies (sometimes by several companies acting jointly) which pay substantial insurance premiums - say, of £250,000 a year or more.

A captive can achieve better premium rates than its parent if it can deal directly with the wholesale insurance markets rather than through brokers. It may also be able to manage specialised risks more effectively, and can generate tax savings.

Dublin's big selling points are that it is within the European Community, and is able to offer captives the special 10 per cent corporation tax rate which is applicable to all companies within the International Financial Services Centre, at least up to the year 2000.

Also, it is very close to London, with its huge insurance markets, and can offer a sophisticated range of support services. A weakness, perhaps, for a centre which seeks to serve Continental Europe, is that German and French are relatively rarely spoken in Dublin with any fluency, and attention may need to be paid to this if Irish financial services are to develop to their full potential.

The direct employment created in this business is modest - say, two people per captive. But work is also generated for accountants and lawyers, and the banks will benefit, too. Then there is the general spin-off in the form of hotel and restaurant bookings as

overseas directors arrive for regular board meetings and management conferences.

Compared with Luxembourg, Dublin is cheaper, and in captive insurance can offer facilities for direct insurance as well as reinsurance.

The tax position is also favourable in that there are double tax treaties with many important countries so that profits can be repatriated with-

A weakness is that German and French are rarely spoken with any fluency

out further charge (although if profits are not to be repatriated, some of the offshore centres impose even smaller tax burdens).

Guernsey and the Isle of Man are outside the EC, whereas Ireland is within. This may not have any great significance at present, but Community legislation is being developed to establish a single market in insurance beyond 1992, and Dublin-based companies are assured of free access to business in all member states.

In addition, Ireland is a full member of the European Mon-

etary System, which reduces the exchange rate risks compared with, say, dollar-based centres, or even the sterling-based centres, at least until such time as the UK joins the Exchange Rate Mechanism of the EMS.

Certainly Dublin is being taken very seriously by the major international captive managers, and the Swedish-based SINSER and American International Group, for instance, have set up in addition to the two firms already mentioned.

Because of the European Community advantages there are hopes that American multinationals which at present channel their risks through Bermuda captives will consider the possibility of setting up subsidiary captives within the Dublin IFSC to handle the insurance business of their operations in Ireland and elsewhere in the community.

The marketing effort is intensifying. Mr Hannagan says he was pleased that as many as 101 delegates from nine EC member states turned up last month to an Alexander Stenhouse seminar in Dublin on captive insurance opportunities.

"Now company risk managers will ignore Dublin at their own peril," he claims.

PROFILE: ROBIN POWER

Profitable mixture



Power: former dentist

It's a long way from filling in teeth in Cork to developing luxury hotels in Los Angeles and business premises in central London, but that is what Mr Robin Power, former dentist turned worldwide property developer, has achieved.

Mr Power, 45, founded Power Corporation in 1973. "Times were tough as a young dentist - my partner was laid and patients always wanted treatment from him, thinking he was older. So I decided to tap the property market in the Cork area."

Things were not much easier in the property business. Interest rates were more than 20 per cent, but with Ireland's entry into the EC, substantial amounts of money were coming into the economy.

Mr Power's first large-scale developments were two shopping centres in Cork. By the early 1980s the Power Corporation was specialising in combined retail, leisure and res-

taurant complexes in city centres in Dublin, Manchester and Bristol. This shopping centre "mix" has been continued.

Power Corporation went public in 1987, two days before the "Black Monday" stock market crash. "It was just luck - and it's worked very well. Since flotation we've had three rights issues and they have all been fully subscribed," he says.

Power is the eighth largest industrial company on the Irish market. The key to the Corporation's growth over the past three years is the move into central London and the acquisition of the Trocadero Centre in Piccadilly.

In late 1987, Power put together a consortium to purchase the centre, in which it took a 25 per cent interest. A few months later Power had a rights issue and took its Trocadero stake to 50 per cent.

Again, the Trocadero has been built as a "mix" between fashion, food and leisure. "It's a four-acre ground-site with 16 acres of floorspace. The site was producing less than £2m in rent per year. One section of the site alone will soon be producing £15m per annum in rents," he says. "The whole thing has worked beyond my wildest dreams."

The Trocadero development is adjacent to London's Chinatown and Power has seen its site value increase, with former Hong Kong residents eager to invest in the area.

The success of the Trocadero site has been the springboard to other developments, particularly in the US. Power now has a 40 per cent stake in a shopping development on Rodeo Drive in Los Angeles, allowing US investors to invest in the property group.

Power also has a 30 per cent interest in the Ambassador Hotel site in Los Angeles, being developed in partnership with, among others, Mr Donald Trump, the king of the US property business.

Power also has retail property in New York and is examining possible sites for development in Paris. Mr Power has used Japanese banks to

finance many of his deals.

"The Japanese understand the sort of upmarket retail mix that we try to achieve. They appreciate our 'hands-on' style," he says.

Power closely vets retailers wanting space in its development. It sometimes goes as far as to examine menus and test their suitability.

The corporation also uses, wherever possible, its own in-house pool of architects. Power is expected to announce profits of £10m for last year and has recently established an A&P facility in New York, allowing US investors to invest in the property group.

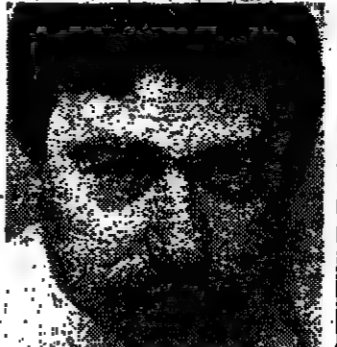
Mr Power feels that as his company's activities expand business is likely to become easier.

"There are not so many businesses at the top end of the property market, so it is less competitive. We cover our risks all the time - and from any one, we've never had a problem with the banks."

Kieran Cobble

PROFILE: CRAIG MCKINNEY

Singular honour



McKinney: university dropout

THERE ARE many successful Scottish financiers, but very few who made their name in Ireland. Perhaps only one - Craig McKinney, founder and chairman of Woodchester Investments, qualifies for this singular honour.

Mr McKinney was born in Lanarkshire and dropped out after a year studying commerce at Edinburgh University. "I thought it was a ridiculous course. The first three lectures were about the development of the water mule in industry."

His connections with Ireland began in 1970 when he went to work for a company called Hamilton Leasing, which was establishing an Irish operation. In 1978, the Irish company came up for sale. Mr McKinney and his brother tried to organise a management buy-out, but were unable to raise the cash. Instead, they founded Woodchester and nine years later bought out Hamilton. It is the deal which gave him most pleasure in his career.

Woodchester, though, has become more than a leasing company. McKinney has built it into a significant Irish financial services group, capitalised at IR£300m and ranked seventh by size on the Dublin stock exchange.

The key deals in broadening Woodchester's base were the acquisition of two small banks, Bowmaker and Trinity, giving it, not just a valuable hire purchase business, but a banking and foreign exchange dealing licence, and a fully-fledged treasury department.

Despite its impressive profit and share price performance, Woodchester has always attracted more than the usual number of doubters - "when I paid IR£10m for Bowmaker, everyone said I was mad," says McKinney.

Next year the profit contribution from the bank is expected to be IR£5m. McKinney has certainly shown his Irish rivals, who tend to share the national tendency towards flamboyance, the virtues of Scottish cannyism.

Woodchester's Dublin headquarters, despite being in a street called Golden Lane, is plunked in the middle of Corporation flats in about as unfashionable an area as possible. But he has been able to generate a lot of cash selling the plush head offices of his acquisitions and moving the slimmed-down workforces to Golden Lane.

The same techniques were applied to Woodchester's British acquisitions, Milestone Leasing and Moorgate Mercantile, bought in 1988.

"We have shown that we can manage companies and aren't just laid-back providers of capital," says McKinney. But it was the ventures into the UK which combined to give Woodchester the worst six months in its history. The main problems were not Woodchester's, but those of the B&C financial conglomerate, which originally held 62 per cent of the Irish company.

As B&C's troubles mounted, it placed 50 per cent of Woodchester with institutions at IR£180p per share. That still left a 25.9 per cent chunk, and it proved difficult to sell.

Last autumn it was confidently expected that the French bank Credit Lyonnais would buy the stake at IR£205p per share. But the deal fell through, ostensibly because the French Treasury vetoed it. Yet a month later Credit was back, buying the shares, but at IR£105 a share.

Given the difficulties in valuing leasing companies, some believed that was Credit's real calculation of Woodchester's worth. But the deal is a bit more complicated than that. The share price has since climbed to IR£215, on the belief that the French will buy a further 80 per cent at around IR£2 per share, leaving the balance with the institutions.

Credit Lyonnais would therefore have replaced B&C as majority stakeholder, and a better one from McKinney's point of view.

"It is the twelfth biggest bank in the world and can give us access to the Continental markets."

As if to make the wheel turn full circle, McKinney has appointed three senior executives to develop financing for Lookers' agricultural machinery division - said to be the biggest in the western world.

Where did they come from? A company called Highland Leasing.

Braden Keenan

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Quest for international fund management

A strong bid for business

IF THE Irish can manage it, it will be quite an achievement to turn Dublin into an international investment centre.

Until little more than a year ago, after all, Ireland was ringed around with foreign exchange controls on overseas portfolio investment. And even when Ireland was within the sterling area, its financial institutions lived in the shadow of their more powerful rivals in London and Edinburgh.

But most domestic controls on overseas investment have now been lifted, and Ireland is committed to the single market in financial services which the European Community will introduce at the beginning of 1993.

Ireland is now making a two-pronged bid to become an important centre for international fund management. Last year it rushed through legislation to comply with the EC's UCITS Directive, achieving this by June 1 - several months ahead of the UK and Luxembourg.

UCITS are retail investment funds - the acronym stands for Undertakings for Collective Investment in Transferable Securities.

In addition, however, attempts are being made to attract other kinds of international investment funds, notably those of a wholesale nature.

The aim, moreover, is to make Dublin into a place where genuine investment decisions are made, as opposed to Luxembourg, which hosts many hundreds of funds but which is essentially an administrative centre, delegating the investment advisory side to London, Switzerland, Tokyo and elsewhere.

Asset management has therefore become one of the important focuses of Dublin's International Financial Services Centre. UCITS promoted by IFSC companies are free of all Irish taxes (they do not bear even the tax of 0.05 per cent of assets charged by Luxembourg, but may not be sold in Ireland).

Non-UCITS investment companies are less easily marketable, and will be liable to a 10 per cent tax on income. But at the same time they will be able to gain access to Ireland's network of double tax agreements with 21 countries. This means that withholding taxes suffered abroad may in many cases be reclaimable - which represents a potentially important advantage over Luxembourg.

Ireland itself has a well-developed stock market. The Irish Stock Exchange is in fact a unit of the international

Stock Exchange based in London. As such, it has local autonomy, but at the same time has access to the technology and international connections of the London market.

The Irish Government's increasing emphasis on the funding of investment through private capital has encouraged the exchange to promote the advantages of a listing with renewed vigour.

"At present there are too few instruments for people to invest in," admits Tom Healey, general manager of the Irish Stock Exchange. Including both the fully-listed and junior markets, about a hundred stocks are traded - "we are trying to encourage companies to think of going public," he says.

With a capitalisation of some £30bn at the recent peak, the market is among the minnows of the European scene. The loss of the listing of Irish Distillers after a French takeover was a blow, and the market has not yet benefited from any significant privatisation issues, although Irish Life is a contender for the medium term, and maybe Aer Lingus, too.

On the other hand, business in Irish Government securities has benefited from overseas interest, especially from German investors. These have seen attractions in the higher returns earned on Irish pound bonds compared with deutsche mark securities, given that the exchange rate risk has been reduced because of the Irish currency's increasingly secure position within the European Monetary System.

In one respect, claims Mr Healey, the Irish exchange is unique in Europe: it does not fear foreign competition, having successfully defended its patch against London, which transacts only about 5 per cent of the business in the major Irish stocks. It remains to be seen, however, whether last week's move into Irish stocks by Winterflood Securities in London will eat into Dublin's volumes. And it is questionable how much the domestic exchange will have much to gain from the growth in fund



Ireland has a well-developed stock market.

management in the IFSC, given that the various international firms will concentrate on playing the global markets. Nevertheless, J & F Davy, one of the 16 member firms of the Irish Stock Exchange, is setting up Davy International within the Centre to develop offshore stockbroking opportunities.

The big banks will be establishing back-up services such as global custody. They will be aiming to provide administrative services, including valuation and certification, to units and other international funds. Under the rules, these services must normally be made available within the Centre.

Ireland has established a new regulatory framework based on the Central Bank in order to ensure adequate supervision of the expanded fund management sector. There is provision both for unit trusts (or mutual funds) and investment companies (with fixed or variable capital). About a dozen units have been authorised so far.

But the conditions attaching to the IFSC make the regulations inevitably rather complex. The waters were muddied a little further last month when Albert Reynolds, the Finance Minister, slipped a 3

per cent tax on all purchases of overseas-based funds, including UCITS, by Irish residents.

This was largely in response to lobbying by domestic unit-linked life assurance companies which feared that competition from abroad would be intensified. The tax was justified as creating more of a level playing-field within Ireland, given that life funds already bear such a 3 per cent front end tax, but there are also fears that the tax will encourage outflows of cash to offshore tax havens.

In any event, fund promoters within the IFSC are required to agree that their "dock site funds" will not be sold in Ireland itself, which is no great sacrifice considering that the domestic market is tiny compared with the potential of the remainder of the EC.

These rules will create problems for the larger domestic operators such as the banks, which are faced with decisions about how to divide up their fund management activities. They are also in danger of seeing their staff poached by incoming firms, although Investment Bank of Ireland, for example, says that only one fund manager has been tempted away so far.

For the foreign managers, the first hurdle to be surmounted is that Ireland does not have the credibility of Luxembourg as a domicile for international funds, and a major marketing job has yet to be done. The second question mark is over the availability of staff. Experienced fund managers constitute a scarce resource, especially in Ireland, although it is possible that significant numbers of Irish nationals overseas, especially in London, might be attracted back to Dublin given the right incentives.

Otherwise, it should be noted that the Dublin City University is springing quickly into action to offer a postgraduate course in investment management and treasury management to help plug the looming skills gap.

Meanwhile, the big advantages of Dublin are that it is an uncrowded financial centre where people are eager and ready to do business, and where fund promoters with good credentials can set up quickly. "We can get funds approved within a few weeks," claims a local consultant.

For firms sweating it out in Luxembourg's long and expensive queues, Dublin could sound like an increasingly good idea.

Barry Riley

Enthusiasm over Ireland's Presidency of the Council of Europe

Difficulties in the run up to the single European market

THE ENTHUSIASM with which the Irish Government has taken over the Presidency of the European Council for the first six months of this year has supported a common theme among Irish politicians that "the Irish are good Europeans."

A popular referendum on the adoption of the single European Act in 1987 showed that 70 per cent of those who voted were in favour of further European integration.

Ireland has been a substantial net beneficiary of EC funding since joining the Community in 1973, and last year the Government launched an £25bn economic development plan which included £3bn of Community support.

But despite significant advances in recent years, Ireland still faces problems in the run up to the single European market. A recent improvement in economic performance has made little impression on unemployment, which at 18 per cent is twice the EC average.

Emigration, at an estimated 40,000 per year, is higher than at any time in Ireland's recent history.

Furthermore, a spate of borrowing over the last two decades has left the Irish exchequer devoting a large proportion of its tax revenue to servicing a national debt of £25bn.

While the balance of trade is favourable, with more than two-thirds of industrial output being shipped overseas each year, the country's exporters are hampered by a transport infrastructure in such poor condition that it prompted a European Parliament report in 1986 entitled: "Transport as a Bottleneck to Economic Development in Ireland."

When the Channel Tunnel is completed, Ireland will be the only member state with no land link to the rest of the EC. While the Government has expressed its enthusiasm for the single market it is also aware that there might be negative consequences. Much effort has been devoted to explaining Ireland's "special circumstances" to the EC's decision-makers.

The Irish exchequer is concerned about an anticipated loss of more than £600m in revenue following the harmonisation of indirect taxes throughout the EC.

In some instances derogations have been sought from Brussels. Ireland will not fully implement the EC directive on non-life insurance, for example, until the late 1990s. However, the late 1990s. However, the late 1990s.

The effects of the single market has resulted in many companies seeking links with similar enterprises in other EC countries.

A survey by the Confederation of Irish Industry (CII) revealed that by 1992, 40 per cent of companies expect to take over concerns in other member states, 10 per cent expect to be themselves taken over, while the remainder anticipate involvement in joint ventures or other arrangements.

"Irish industry is very positive about the completion of the single market," says Mr. Liam Connellan, director general of the CII.

"As we export most of our output, we have a great interest in the removal of trade barriers. Non-tariff barriers, such as lengthy customs procedures and differing technical standards between member states, have been used to hinder the free flow of trade."

"Given the small size of our domestic market, I believe that imports will increase to about 90 per cent total industrial output once these barriers have been removed."

Mr. Connellan does not believe that 1992 will see small firms being swamped by larger concerns better positioned to take advantage of the single market.

"Most small firms in Ireland are subcontractors, supplying larger companies. Improved performance by those companies will benefit small firms by increasing the demand for their products."

"In addition, many of the small firms which directly serve the domestic market sell breeding stock. Many agricultural co-operatives have been transformed from small regional concerns into major companies with ambitious marketing and expansion plans. Larger food concerns have come to the stock market to finance foreign acquisitions. The industrial sector has shown similar confidence. Manufacturing output has grown by 10 per cent in each of the last three years, and a general increase in industrial output of 7 per cent is expected for 1990. A government publicity campaign outlining the likely

services rather than goods. They are well placed to serve particular local needs, and can adapt relatively easily to market changes" says Mr. Connellan.

Despite some recent Government investment, Ireland's transport infrastructure remains poorly equipped to deal with the needs of exporters. The road system, particularly in rural areas, has suffered from years of neglect.

Port facilities are inadequate, and the Irish Government has been criticised for failing to provide an efficient freight transport system across the Irish Sea. Many exporters find it more profitable to send their goods on a longer route through Northern Ireland, rather than use ports in the Irish Republic.

This year the Government has allocated more than Irish pounds £215m to road improvements. Critics say that other areas of transport development have been ignored.

"The Government intend to see that Irish industry is not disadvantaged by our peripheral location," says Mr. Padraig Flynn, the Environment Minister.

Telecommunications, for many years among the worst in Europe, have been considerably improved. The financial services sector has been among the first to benefit.

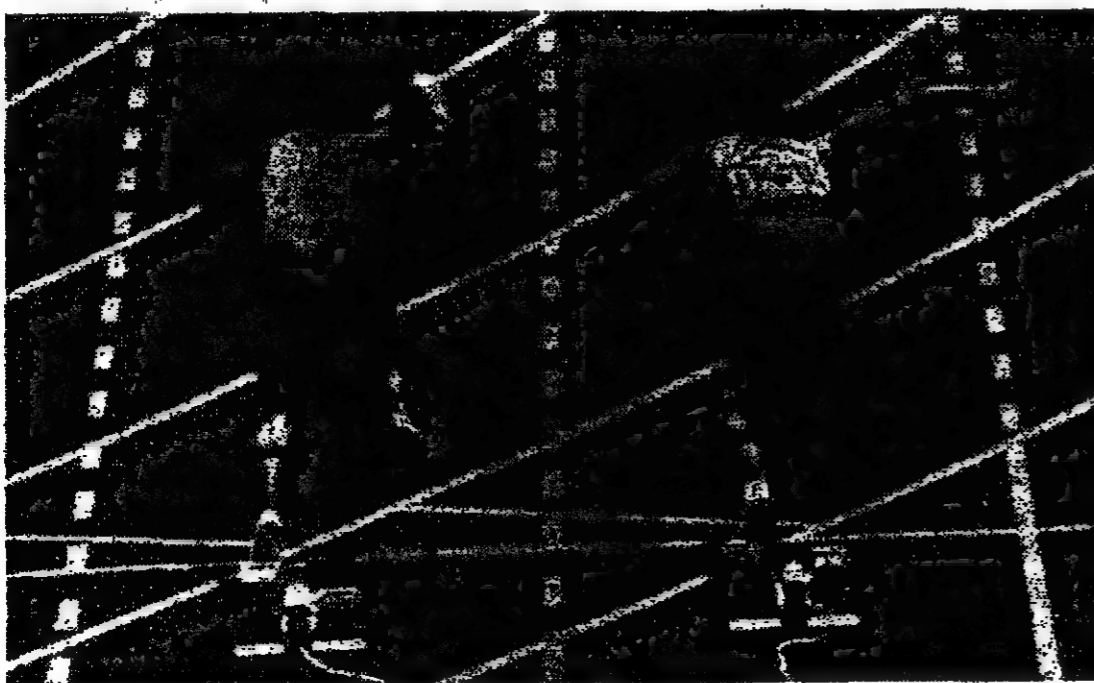
"1992 is a great opportunity for the financial sector," says Mr. Brian Cregan of the Financial Services Industry Association. "It will allow Irish firms to expand into Europe."

In many respects, Ireland may benefit from the completion of the single market. But a sustained economic revival will be necessary before Ireland is on a par with other member-states.

One recent report on Ireland's state of preparedness for 1992 observed: "While its location, EC membership, language and culture make it clearly part of the Western industrialised nations, many aspects of the Irish economy and society are best understood as those of a developing nation."

John Maher

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VOTED 1ST OVERALL

An *independent passenger opinion survey was recently carried out with the co-operation of all six airlines operating between Dublin and London. Aer Lingus was voted the winner in all the above categories, and overall voted three times more popular than the second placed.



*TTLS, independent survey carried out on 5th January to over seven hundred passengers travelling Dublin-London with six major airlines.

IRELAND 6

EUROPEAN FINANCE AND INVESTMENT

Kieran Cooke highlights new facilities for doing business in Ireland

Big improvement in communications

NOT SO long ago, making a phone call in Ireland was a highly complex operation. Mountains of coins had to be assembled. Handsets had to be furiously turned. Machines had to be chastised, operators chastised to and with.

Coins would thud deafeningly away. Only a Pavarotti could find a way through the mush. "Meet me at..." - then a last sickening click and the line was dead. There are probably still people wandering around, puzzling about who they should meet, and where.

But times have changed: telecommunications, the life-support system of the financial services industry, have improved dramatically. Ireland now has a phone system the equal of any in Europe.

The old numbers - like Ballyjamesduff 42 and Cootehall 11 - have disappeared. Even the remotest parts of the country are now on direct-dialling.

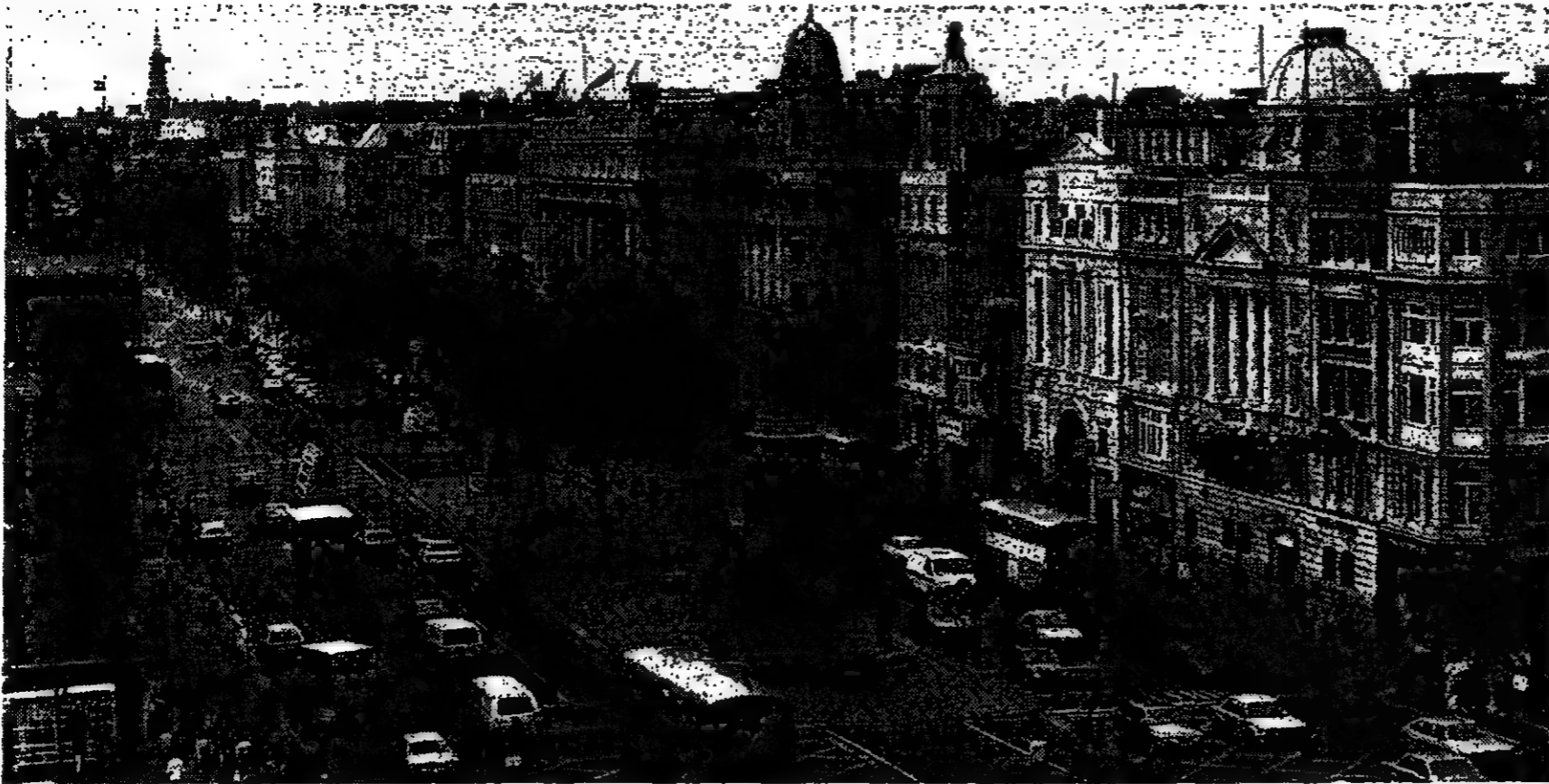
There have been many other changes. There has been something of a revolution in Ireland's airline industry; the monopoly of Aer Lingus and British Airways on flights in and out of the country has been broken.

In the last three years Ryanair, the new independent Irish airline, British Midland, Dan Air and others have joined the big national airlines on London-Dublin and other routes. Fares have tumbled and passenger numbers increased dramatically. In 1988, there were 1.85m passengers in and out of Ireland. Last year there were more than 2m.

New airports have been opened in various parts of the country. Before long most important centres in Ireland should have air links with the main European cities.

While air routes have been developed, sea routes have shown little improvement. Passenger services in and out of Ireland are inadequate and some routes have been closed. Transporting goods across the Irish Sea can still be something of a nightmare.

The Irish Sea remains one of the most expensive stretches of water in the world. A comprehensive freight only ferry service linking Ireland with the European continent is urgently



Dublin - rents for commercial premises compare favourably with other European centres.

needed. Ireland seems to have been waiting for funds from Brussels before embarking on a comprehensive port development programme.

Most traders feel the authorities have delayed things for too long. Those specialising in financial services will be looking for the most part at Dublin, though some will go to Shannon in the southwest.

Rents compare favourably with other European centres. Premium office space in the new Financial Services Centre in Dublin costs under £50 per sq. ft.

In some parts of the City of London, similar office accommodation would cost between £80 and £90 per sq. ft. Other office space in the Centre is available at under £30 per sq. ft. and in the rest of Dublin between £10 and £15 a sq. ft.

In the Financial Centre at Shannon, rents are about £12

per sq. ft. Accommodation costs also compare well with other cities in Europe. In Dublin a sizeable apartment or a house can be rented for £400-500 per month. However, supply is limited and standards vary considerably, with many apartments lacking facilities common elsewhere in Europe.

In Dublin, a combination of bad taste and developers greed has ruined many properties. Rents might be relatively cheap, but other items are expensive. Cars prices are among the highest in Europe. A gallon of petrol costs a £1 more than in Britain.

Taxi fares are considerably more than in London. Hotels are also expensive though a big building programme, particularly in Dublin, might force some prices down.

Foodstuffs and drink are 20 per cent - 30 per cent more expensive than in Britain.

Even the well-heeled yuppie might be forced to stop quaffing champagne at Dublin's prohibitive prices (£230 off the supermarket shelf).

The bill for a meal out in Düsseldorf or Rome would be much less than the charge at many Dublin restaurants. Quality and variety, particularly at medium-range restaurants, is also in short supply in Dublin.

With a population of only 1.5m, Dublin is more a large town than a capital city. Stroll down a street or into a pub and you'll probably meet someone you know.

The city is still rather parochial and lacks the cosmopolitan flavour of most other centres in Europe. It has good theatres and an interesting cultural life, but those expecting London or New York style variety will be disappointed.

Unfortunately, Dublin does

have crime: there is a high incidence of car theft and home robberies - worse than Frankfurt, but a far better situation than New York.

For most people, Ireland's greatest attraction is the lack of crowds. Traffic jams are as yet only an occasional tribulation and not - as in London - a permanent feature. You can walk to almost all appointments in Dublin.

Within half an hour of the capital there is wild, unspoilt countryside.

For the golfer, Ireland offers countless opportunities; for the sailing enthusiast there are plenty of challenges; for the fisherman there is a lifetime's supply of rivers and lakes to discover.

Some people, used to a more frenetic and varied life elsewhere, might find adjusting to Ireland difficult. But others, once smitten, find the country

very difficult to leave.

Useful addresses include:

- Chambers of commerce:
 - Cork Chamber of Commerce, Carrabeg House, Summerhill, Cork, (tel: 50944; tx: 26159).
 - Dublin Chamber of Commerce, 7 Clare Street, Dublin 2 (tel: 76491; tx: 50716).
 - Dundalk Chamber of Commerce, 14 The Crescent, Dundalk, (tel: 34033).
- Banking:
 - Allied Irish Banks, Bank Centre, Ballsbridge, Dublin 4, (tel: 60811; tx: 25232).
 - Bank of Ireland, Lower Baggot Street Dublin 2, (tel: 78744; tx: 25578).
 - Central Bank of Ireland, 599 Dame Street, Dublin 2, (tel: 71666; tx: 31041).
 - The Institute of Bankers in Ireland, Nassau House, Nassau Street, Dublin 2 (tel: 777199).
 - Investment Bank of Ireland, 91 Pembroke Road, Dublin 4, (tel: 68421; tx: 35005).

Specialist business training
New course for graduates

THE PROUDEST boast of Irish Government agencies and officials charged with attracting foreign investment to Ireland has always been that the country has a young, highly educated and computer literate workforce at the disposal of any potential employer.

But in some areas the workforce has been found lacking. While universities and other third level institutions have produced out an abundance of graduates in general business studies, they have not been equipped for employment in key specialist areas such as investment analysis and fund management.

Now an attempt is being made to overcome this problem. A new post-graduate Masters degree course in Investment and Treasury is being established at Dublin City University.

The course is aimed at supplying enough skilled financial analysts to meet the future needs of the Irish financial services industry.

A series of manpower studies by the Financial Services Industry Association (FSIA) have shown that the number of treasury and investment specialists employed by the industry in Ireland could grow from 550 in 1986 to 1,000 in 1992.

Furthermore, an additional 2,000 specialist jobs are likely to be generated by the new International Financial Services Centre in Dublin.

The FSIA studies indicated that the shortage of specialists could become increasingly serious and could hinder the future expansion of the industry.

"A major concern of people in the industry has been the availability of specialists in sufficient numbers in the future," says Mr. Philip Ryan of the FSIA.

"It can be difficult to get minds concentrated on long-term development, but our surveys revealed that there was a general agreement that the industry was not investing enough in training programmes to meet future staffing needs," says Mr. Ryan.

One of the major problems facing financial organisations in Ireland has been the level of "leakage" from the industry.

Many graduates have been attracted to London by the training opportunities and comparatively high salaries offered by companies there.

There has also been evidence of an increase in staff "poaching," the practice by which companies recruit specialists from other organisations, rather than train graduates themselves.

Such practices can be detrimental to the long-term interests of the industry as they serve to raise salary levels and lower the numbers of specialists available for employment.

The FSIA hopes that the new MSc course at Dublin City University will go some way towards overcoming these difficulties.

"The course is designed to offer graduates an effective mechanism for making the transition from education to industry," says Mr. Ryan.

"We believe that employers who can offer this training will have a competitive advantage when recruiting graduates."

The two year part-time course, which graduates will undertake while gaining relevant work experience with a financial institution, offers training in a range of specialist activities such as portfolio and treasury management, corporate finance and financial reporting, he adds.

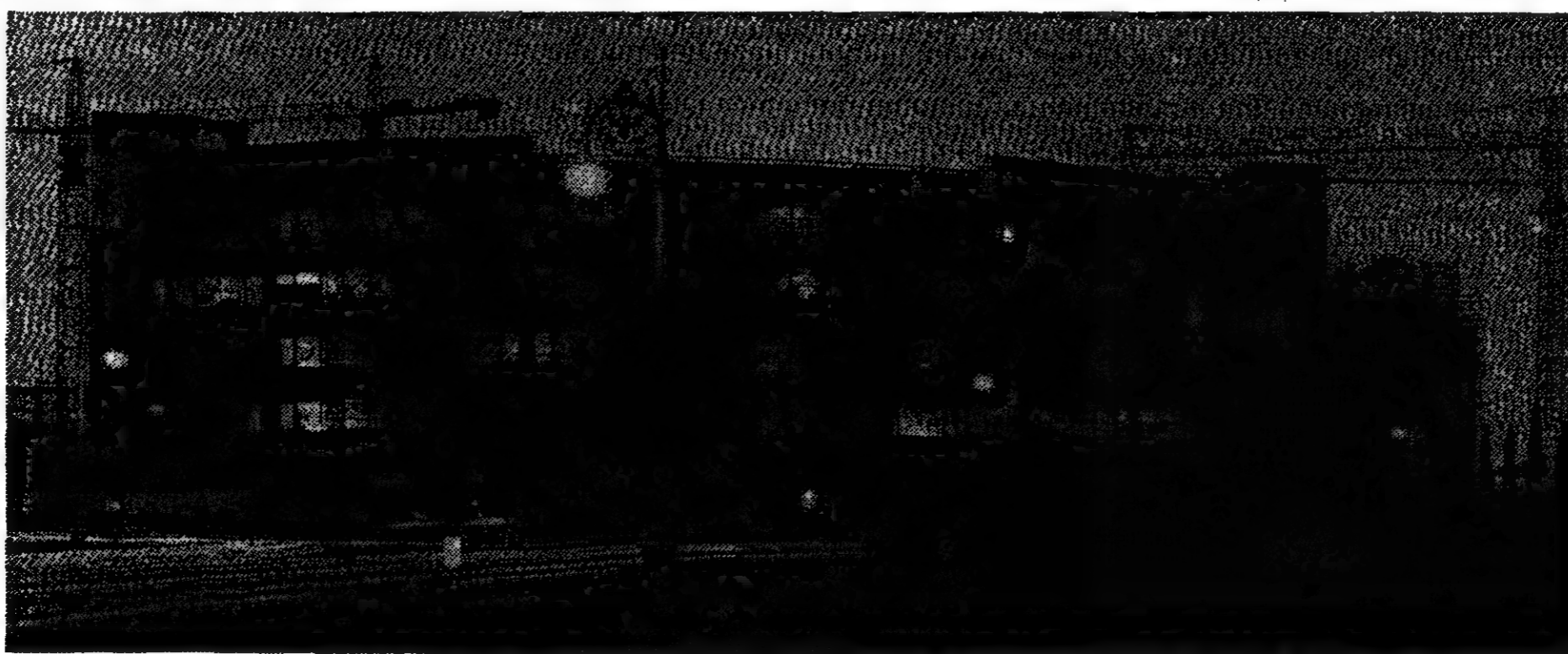
Successful participants will be eligible to apply for associate membership of the Society of Investment Analysts, the professional body which has assisted in the designing of the course programme.

Dublin City University has received more than 450 enquiries about the course since it was launched last month - "obviously not all graduates of this course will stay in the investment and fund management area," says Mr. Ryan.

"Many will move into management positions in their own or other organisations, while others will undoubtedly go abroad," he adds.

"But we believe that, on balance, employers in the Irish financial services industry will benefit substantially from this development."

John Maher

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FINANCIAL TIMES SURVEY



Having returned to power with a narrow majority last October, Felipe Gonzalez's Socialist Government

has been battered by political scandals, new autonomy threats and an overheating economy. It has begun to placate the unions to protect itself, writes Peter Bruce

Gonzalez in a tight spot

POLITICAL CYCLES (or should that be political memories?) are short in Spain. Only last year the Government and trade unions appeared to have split completely. Mr Felipe Gonzalez, the Socialist Prime Minister, pronounced dead the decade-old three-way accord between Government, employers and unions on wages and working conditions after a successful one-day general strike against his conservative economic policies.

Fading fast too was the Basque separatist-terrorist group ETA, which Spaniards were told had lost its political battle for the hearts and minds of Basque nationalists.

The Government had also ridden out a series of minor scandals - the deputy Prime Minister's use of a Government aircraft to get him out of a traffic jam at the Portuguese border, the Minister of Defence's use of a Pta 1m plane at public expense and the director of the state radio and TV running up a big clothes bill on her company credit card - with smooth excuses.

The economy was a little overheated but under control. The Treasury had taken appropriate measures to stop the inflow of hot foreign capital

and Spaniards were being dissuaded from getting around high domestic interest rates by borrowing abroad.

A year later, the Government is doing its utmost to placate the unions, especially its former sister organisation, the Socialist UGT, the nationalist torch in the Basque country and Catalonia has been picked up by once-dominant moderate parties, the Government is embroiled in a damaging corruption scandal and the Bank of Spain has been forced to dictate to banks how much money they can lend after its earlier restrictions were seen to have no effect at all.

Something very odd is happening to the Government. The Socialist Workers Party was re-elected to a third term in office last October with the thinnest possible majority - one seat - in the Cortes, or Parliament, in Madrid. Mr Gonzalez is on record as saying that this will be his last four years as Prime Minister, which is probably just as well because the Socialists, as things stand now, appear to have little chance of winning a fourth overall majority in Parliament when Spain next goes to the polls even though they remain the largest party.



Traditional Spain: flamenco dancing at the Zambra Club in Madrid; and Williams and Humbert's bodega in Jerez de la Frontera, where 50,000 barrels of Dry Back cherry are stored



where 50,000 barrels of Dry Back cherry are stored

Because of this, suggest some political observers, the Socialists are beginning a slow process of preparing themselves for opposition. Hence the rapid peacemaking with the UGT, which provides the party with its grassroots support. Hence Mr Gonzalez's breezy threat earlier this month to resign if Mr Alfonso Guerra, his long-standing deputy, is forced out of office. The rise of Mr Guerra's brother from bookseller to millionaire businessman was the subject of a parliamentary debate this month. It emerged that his success had been achieved from an office put at his disposal by the deputy Prime Minister.

In the debate, Mr Alfonso Guerra refuted heated accusations of influence peddling, however, proving that for the highly-organised Socialists, dealing with the opposition is still relatively easy.

Obviously, a lot can happen in the next four years. But senior officials now openly speak of irritations and dismay within the Government. For one thing, Mr Gonzalez's apparent determination to leave national politics by 1992 has opened a battle for the party leadership between Mr Narcis Serra, the Defence Minister and Mr Javier Solana, the Education Minister. There are at least two other candidates and the manoeuvring has been intensified by the fact that Mr Gonzalez has still not named a new Government since winning last October's election.

Mr Francisco Ordonez, the

Foreign Minister, said before the poll that he wanted to step down but has been persuaded to stay for the moment. But he is highly unlikely to see out the full four years - and the Cabinet reshuffle when he goes is bound to be acrimonious.

The other thorn has been the influence-peddling allegations surrounding the deputy Prime Minister's brother, who was accused in Parliament of having amassed a fortune worth \$10m in the last few years using his position as Mr Alfonso Guerra's adjutant in Andalusia. Though no wrongdoing has been proved, many Spaniards are suspicious.

It may be much harder now for the Socialists to parade themselves as the party of the poor. Also, the arrival on the national scene of Mr Jose Maria Aznar, a bright new leader of the main opposition party, the conservative Partido Popular, may rob the Socialists of many of the threads they have made into Spain's upwardly mobile "yuppie" vote since coming to power in 1982.

In the last three months, Mr Gonzalez has also been hurt by demands for greater autonomy from the moderate parties that govern the Basque Country and Catalonia. Both have debated resolutions in their regional parliaments calling for self-determination, an ill-defined objective which nevertheless signals their desire to climb on the (until now) largely radical separatist bandwagon in search of new voters. The resolutions have no

SPAIN

legal force but the trend is dangerous for Mr Gonzalez, though not beyond his control so long as his Government is functioning smoothly.

Faced with these new political threats, Mr Gonzalez has turned back to the UGT, the union founded by the Socialist Party just over 100 years ago. An apparently unbridgeable gap had opened up between party and union last year, with

Western Europe. But the price has been the introduction of flexible job contracts and a fixation for the past three years in Government with legislating for the capital markets and foreign investors.

In December 1988 the UGT linked up with the main communist union to lead a one-day general strike against the Government. Shortly afterwards, for the first time, the UGT

vice employees to bargain collectively for their wages. In a move that has infuriated employers, the unions have been given the right, for the first time, to "control" individual temporary contracts.

That is very important. The 1985 legislation introducing temporary job contracts vaguely suggested that employers would have to justify the replacement of a permanent job with one using a temporary contract. At the moment, all new temporary contracts are sent to them, the national labour institute, which stores them, but they will now go to the unions. That, employers fear, will lead to endless union interference, and possibly legal challenges, in contracting.

So far, it is estimated unofficially that the Government's accommodations with the unions will cost close to \$2bn and whether that will be reflected in the 1990 budget - which was still being prepared in early February - remains to be seen.

Mr Gonzalez's saving grace at the moment is that the Government's efforts to cool down the economy without actually upsetting it seem to be having some effect. Central government spending this year should rise less than 10 per cent after last year's 18 per cent increase. Credit controls imposed by the Central Bank on commercial lenders last summer have severely limited the growth in money supply, although inflation for 1989 was still well above target at 6.9 per

cent.

The Government's main difficulty in slowing down the economy will be to curb private sector consumption. Figures published recently show an alarming drop in industrial activity in November, but it is too early to extrapolate any trend.

The strength of the peseta is also hurting Spanish manufacturers. Exports grew only 12 per cent to Pta 5.2 trillion last year while imports rose 20 per cent to Pta 8.4 trillion, leading to a record Pta 3.2 trillion trade deficit and a \$11.6bn current account gap - more than 10 per cent higher than expected.

Nevertheless, the Bank of Spain has set itself firmly against weakening the peseta, which has been one of the strongest performers in the exchange rate mechanism of the European Monetary System since it entered nearly eight months ago. For corporate borrowers and consumers, that means there is little immediate prospect of interest rates falling from their current levels of around 15 per cent.

However, even if Mr Gonzalez has been weakened by scandal, it would be wrong to underestimate the Prime Minister's consummate political skills. He has been in tight spots before and so far he has always fought free.

Mr Gonzalez has an astonishing feel for the country he runs. It allows him to make up policy on the hop, which is always valuable when memory fails.

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union leaders accusing Mr Gonzalez of moving economic policy well to the right at the expense of Spain's unemployed and pensioners.

Indeed, the Socialists have managed the transformation of the Spanish economy from its rigid, protected, past to a future that (with notable exceptions in some sectors) easily holds its own now in

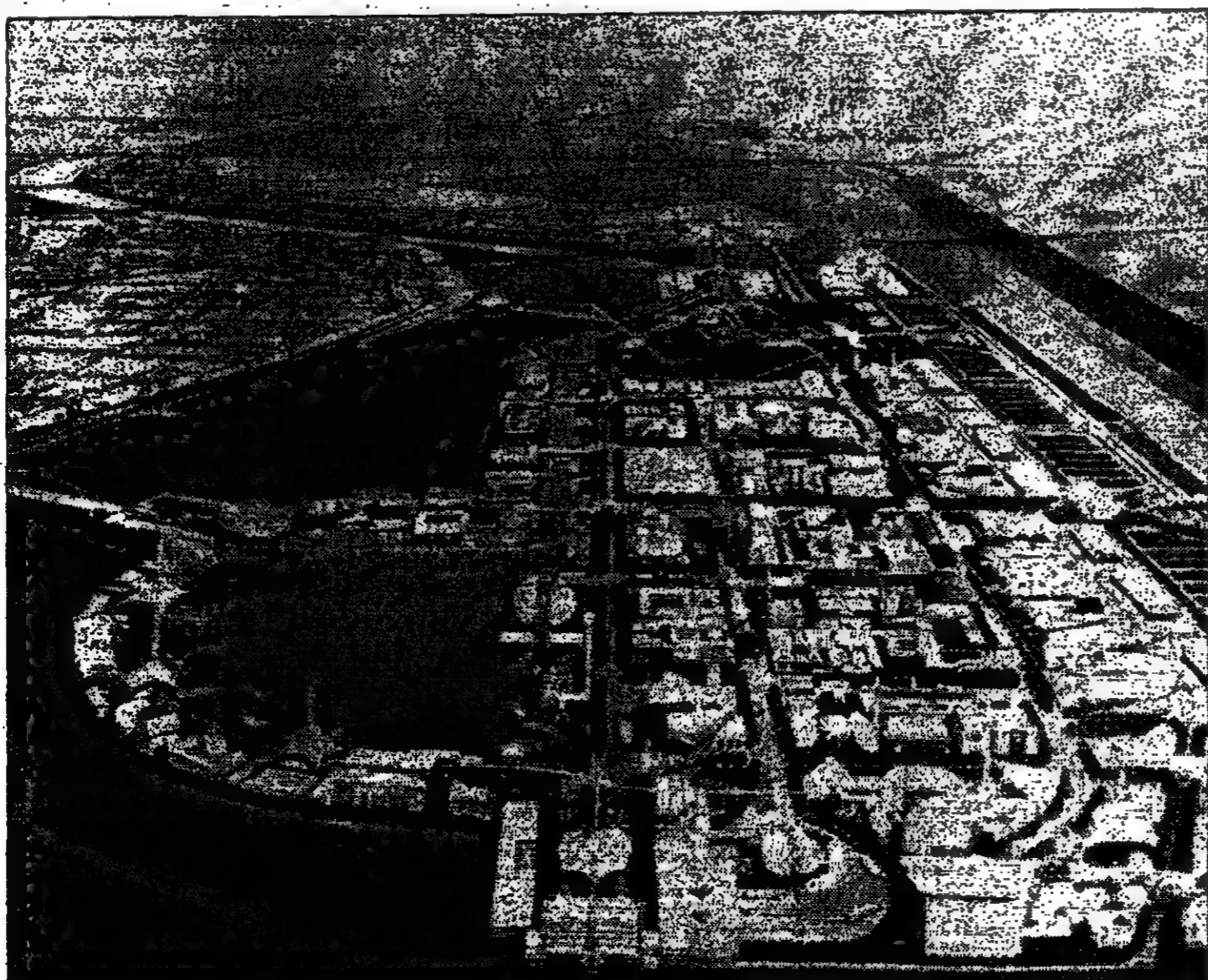
decided not to support the Socialist Party in the General and European Parliament elections in 1989. The break seemed complete.

In the last month, however, much of that bad feeling has been swiftly swept aside. The Government has agreed to raise pensions and the minimum wage. It has also agreed in principle to allow public ser-

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SPAIN 2

Patrick Blum looks at the Government's moves to rein back the economy

Tough credit curbs may be working

FEARING the consequences of letting an overheated economy run out of control, the Spanish authorities are pulling hard on the brakes. If anyone had entertained illusions about an early relaxation of some of the Government's mainly monetarist measures introduced last year to curb credit and domestic demand, two figures published at the end of January put an end to any such hopes.

Bolstered by a booming economy, Spain's trade deficit for 1989 had surged by more than 36 per cent compared with the previous year to Pta 3.2 trillion (US\$29bn), and the current account deficit had almost quadrupled from Pta 22.9bn in 1988 to Pta 81.6bn. End-of-year inflation running at 6.9 per cent (compared with 6.8 per cent in 1988), well above the Government's over-optimistic 3 per cent target, provided another incentive for maintaining, if not deepening, tight monetary and fiscal restrictions.

Mr Jose Perez Fernandez, director-general at the Banco de España (central bank), has no doubts about what needs to

Investment, both domestic and foreign, soared and unemployment fell from 23 per cent in 1985 to 18 per cent in 1989, a year during which more than 600,000 jobs were created. By the end of the year, investment had grown by more than 14 per cent in real terms.

Integration of the peseta into the EMS was also designed to reassure investors

with long-term foreign investment rising by over 76 per cent to US\$16.5bn.

The consequences of such a high level of activity were quickly felt: domestic demand and imports soared, and inflationary pressures grew. The current account deficit rose from 1.1 per cent of GDP in 1988 to 3 per cent of GDP last year, a level regarded by many economists as unacceptably high.

"A current account deficit of 2.5 per cent of GDP is the maximum level that is comfortable. Above that level, the net debt will grow, undermining the country's (international) standing," says Mr Jaime de Pinillos, chief economist with Chase Manhattan Bank in Spain.

High investment levels and capital flows into Spain have generated more jobs and raised expectations, encouraging consumption and credit demand. Last year, the broad measure of money supply (ALP) rose by 10.5 per cent, and private credit to households and companies increased by 16.5 per cent, with a further decline in private savings.

By the middle of 1989, the Government decided to take additional action to reinforce measures aimed at cooling the economy that were introduced in January. The latter had had the twin objective of controlling monetary expansion through a tightening of credit and of reducing the inflow of short-term "speculative" foreign capital inflows.

Regulations were imposed to stop companies borrowing abroad to avoid high domestic interest rates, and the banks

| KEY FACTS | |
|-------------------------------|---|
| Area | 504,780 sq km |
| Population | 39.85m |
| Prime Minister | Felipe Gonzalez |
| GDP per capita | \$3,782 (1988), \$3,440 (1987) |
| GDP growth | 5.2% (1988), 5.5% (1987), 2.3% (1978-88) |
| Forecast GDP % growth | 4.7 (1989), 4 (1990) |
| Consumer price rises (annual) | 7.9% (to Sept 1989), 4.5% (to Dec 1988), 5.3% (to Dec 1987), 11.1% (1978-88) |
| Annual % wages rise | 7.3 (1988), 8.7 (1987), 14.5 (1978-88) |
| Current account | -\$3.78bn (1988), -\$22.9bn (1987) |
| Trade balance | -\$18bn (1988), -\$12.98bn (1987) |
| Merchandise exports | \$39.65bn (1988), \$33.57bn (1987) |
| Merchandise imports | \$57.65bn (1988), \$46.55bn (1987) |
| Official reserves minus gold | \$37.1bn (1988), \$30.7bn (87) |
| Main exports (1988) | non-food consumer goods \$12.5bn, raw materials, intermediate goods (incl. fuel) \$12.5bn, food and drink \$8.5bn, capital goods \$8.5bn, energy products \$1.5bn |
| Destination of exports (%) | European Community 65.6 (France 18, W Germany 12, UK 8.2, Italy 9.7), US 7.3, Opec 4.8, Latin America 2.6 |
| Main imports (1988) | raw materials and intermediate goods (incl. fuel) \$18.4bn, capital goods \$15.8bn, non-food consumer goods \$13bn, food and drink \$8.5bn, energy products \$8.5bn |
| Origin of imports (%) | EC 58.8 (W Germany 16.2, France 13.5, Italy 9.5, UK 7.1), US 8.2, Opec 6.7, Latin America 5.8 |
| Secondary education (%) | 96 (1988), 98 (1985) |
| OECD average | 93% (1988), 63% (1985) |
| Tertiary education (%) | 32 (1988), 6 (1985) |
| OECD average | 17% (1988), 7% (1985) |
| Currency | One peseta = 100 centimos |
| Exchange rate | US\$1 = Pta 166.3 (1989), Pta 171.78 (1987) |
| | £1 = Pta 163.8 (1989), Pta 168.8 (1987) |
| | *1989 prices |
| | Source: International Financial Statistics |

were forced to raise their liquidity reserve ratios to reduce the amount of credit available on the market.

Companies wanting foreign currency loans were compelled to deposit 30 per cent of their loans with the Central Bank while continuing to pay interest on the total amount.

This encouraged companies to borrow more in pesetas, thereby pushing local interest rates up.

These measures had partial success in restraining some foreign capital flows, but failed in other respects. According to the Central Bank, the broad money supply (ALP) continued

| Macroeconomic aggregates (real % changes) | | | |
|---|------|------|------|
| | 1987 | 1988 | 1989 |
| Private consumption | 5.5 | 5.8 | 5.8 |
| Public consumption | 8.7 | 4.6 | 8.7 |
| Gross capital formation | 17.3 | 14.5 | 14.1 |
| Fixed capital | 14.6 | 14.2 | 13.2 |
| Construction | 10.0 | 14.0 | 14.0 |
| Capital equipment | 21.7 | 14.5 | 12.0 |
| National demand | 8.5 | 7.8 | 7.9 |
| Exports of goods and services | 8.9 | 7.2 | 4.9 |
| Imports of goods and services | 20.4 | 19.0 | 16.8 |
| Gross domestic product | 8.5 | 8.3 | 8.2 |
| Final demand | 8.0 | 7.5 | 7.2 |
| Current account balance (% GDP) | 0.0 | -1.1 | -3.0 |
| Public deficit (% GDP) | -4.8 | -3.1 | -1.9 |
| Inflation (year to December) | 4.6 | 5.8 | 6.9 |
| Employment | 3.0 | 2.9 | 4.3 |
| Average salary growth | 6.4 | 6.5 | 6.5 |

Source: Bank of Spain

Source: Bank of Spain/National Statistics Institute

Source: Bank of Spain, Statistical Institute, Eurostat

to grow at a fast rate, rising by 14.5 per cent in the first six months of the year, while private credit to households and companies rose by about 22 per cent in the same period.

In desperation, in July the Government imposed tougher credit controls while, at the same time, further raising bank liquidity ratios and taxes on high-yielding investment accounts. The announcement shortly before that the peseta would be integrated into the European Monetary System, was also designed to reassure investors that Spain was committed to pursuing an anti-inflationary strategy.

There are indications that this combination of measures may be working with a notable slowdown in the rate of growth of the money supply and of credit. Money supply growth was brought down from 14.5 per cent in the first six months to 5 per cent between August and September. Private credit, which had grown at a rate of 21.7 per cent, declined to 8 per cent, bringing the annual rate to 16.5 per cent, half a percentage point below the Government's July target.

Short-term foreign capital inflows were held back as the possibility of an upward valuation of the peseta was constrained following its entry into the EMS. Nevertheless, consumption and productive activity have remained high, indicating that private consumption, which grew by more than 7 per cent last year, has yet to be reined in.

Business, on the other hand, has begun to complain about the impact of the Government's restrictive policies when interest rates remain high. "There are dangers, but you can't make a tortilla without breaking eggs," Mr Perez replies.

The Government is still debating its budget for 1990, after delays caused by last autumn's general election which returned the Socialists to power for a third term. Recent reports suggest that the Government will seek to limit the growth of its deficit by tightening up on expenditure. Total spending is expected to rise by around 9 per cent to about Pta 11.6tn, but with a further cut in the budget

deficit from last year's 1.8 per cent of GDP to about 1.5 per cent. This is to be achieved through a reduction in state capital transfers and subsidies and cuts in some areas of social spending.

These objectives may prove more difficult to attain as the Government now faces demands for an average 8 per cent rise in wages from the unions. Wages rose by 8.7 per cent last year and labour costs have been pushing upwards, but the authorities hope that it will be possible to contain wage increases to around or below 7 per cent, slightly above an inflation forecast of 5.5 to 6 per cent. GDP growth is expected to remain high, though declining to around 4.5 to 4 per cent, with investment growth of 8 to 9 per cent in real terms and demand falling by about 2 percentage points to 5 per cent.

If the strategy succeeds, Spain may be on the road to a "soft landing," but that is still a big "if." Mr Pedro Schwartz, from stockbrokers Iberagente, believes that long-term prospects remain promising. "We are going through an investment boom and

There are dangers, but you can't make a tortilla without breaking eggs

companies are doing well, although the climate has changed. I think inflation will fall quicker than expected." He says more deregulation could increase productivity in the financial sector and that strong foreign investment in the stock exchange will help modernise the economy.

Officials hope that a general tightening up of demand will keep the current account deficit in check, perhaps at around 3.5 per cent of GDP. Chase Manhattan's Mr de Pinillos believes growth may exceed that figure, but he remains optimistic. "We are entering a phase of high-risk growth for the economy and there has to be some deal with overheating, but overall the economy is moving in the right direction," he says.

FOREIGN POLICY

Odd men out in Latin America

EARLY THIS year Mr Francisco Fernandez Ordonez, the Spanish Foreign Minister, paid a quick visit to Tegucigalpa to attend the swearing-in of President-elect Leonardo Callejas. Mr Fernandez Ordonez met US Vice President Dan Quayle in the Honduran capital and also Venezuela's President Carlos Andres Perez, but he was not surprised to discover that not a single European Community ministerial colleague had bothered to make the trip.

A further eight Latin American presidents are scheduled to take office this year and Mr Fernandez Ordonez will be present at each and every one of the oath-taking ceremonies. Some he will attend on his own; at others he will accompany Mr Felipe Gonzalez, the Prime Minister, and on one or two of the trips he will travel with a member of the Spanish royal family.

There are likely to be high-level EC delegations when the new Brazilian and the new Chilean presidents, Mr Fernando Collor de Melo and Mr Patricio Aylwin, are sworn into office but otherwise the Spanish representatives will, as at Tegucigalpa, be the odd Europeans out.

The Spanish presence at such events will underline Madrid's commitment to Latin America, every bit as much as the absence of other European nations will highlight what is feared to be the EC's potential disengagement from the area.

Spain's concern at present is to promote that commitment beyond the sphere of moral support and to rally the flagging European interest in Latin America. Seen from the Madrid perspective, a key consequence of the dizzying pace of developments in the "Common European House" has been the systematic puncturing of the high-minded ambitions Spain once held to bridge the Europe-Latin America divide. Ideally, Spain would have wanted to act, much as France did in the Community's origins, as the midwife to a Loma Convention-type arrangement for the Hispanic world.

Unfortunately, European partners have particularly warmed to the grand design of Spanish foreign policy role within the Community and now they look less responsive than ever.

"We have not lost hope (of bridging the EC-Latin America gap)," a senior Foreign Ministry official said but neither he nor Mr Fernandez Ordonez needs reminding that the EC has firmly fixed its sights on Central and Eastern Europe at the expense of the developing countries in general and of the Southern Hemisphere in particular.

Much the same has occurred with ambitions that Spain entertained of sponsoring an

EC policy that would focus on the problems of the Maghreb. In bilateral talks with France and Italy the Madrid Foreign Ministry has urged the adoption of a Mediterranean policy on North Africa that would among other issues review the immigration problems faced by all three countries.

"North Africa has also been 'parked' because of Central Europe," the official conceded. "It is not an EC priority right now."

It is the Hispanic world dimension however that particularly upsets the Spanish Government. Community aid to Poland and Hungary in the latter half of last year, according to Madrid, was greater than its 1989 aid package to the whole of Latin America. "These are tough statistics for us," said the official.

Madrid diplomats say that the most that can be hoped for in the present circumstances is that the EC should maintain "its present commitments to Latin America." These, at present, amount to Ecu 300m a year.

Spain further expects that there will be no loss of momentum in a Madrid initiative which annually brings together the 19 EC partners and eight Latin American nations at the UN General Assembly to brainstorm about the debt problem.

But Spain is beginning to come round to the uncomfortable realisation that it must put its money where its mouth is and take upon itself a Latin American burden that the Community does not wish to share.

In the past three years Spain has drawn wide-ranging soft loan, trade and industrial co-operation agreements with Argentina and Mexico and it is now negotiating a third such accord with Chile. The Government plans to establish similar programmes with Venezuela, Brazil and Colombia over the next two years.

The idea is that by 1992, the year marking the fifth centenary of Christopher Columbus's voyage to the New World and of the Expo '92 Universal Exhibition in Seville, Spain will be able to demonstrate to the EC its own individual bridge-building effort.

The immediate problem is that Spanish development aid is not very much to start with. Latin America receives 65 per cent of Spain's total aid funds and these have gone from representing 0.04% of GDP in 1986 to just over 0.1% last year.

The Government aims to raise the funds to 0.24% of GDP over the next three to four years, but even this radically improved figure contrasts with the average 0.35% of GDP that is currently spent on development aid by OECD nations.

Tom Burns

Mountleigh Group

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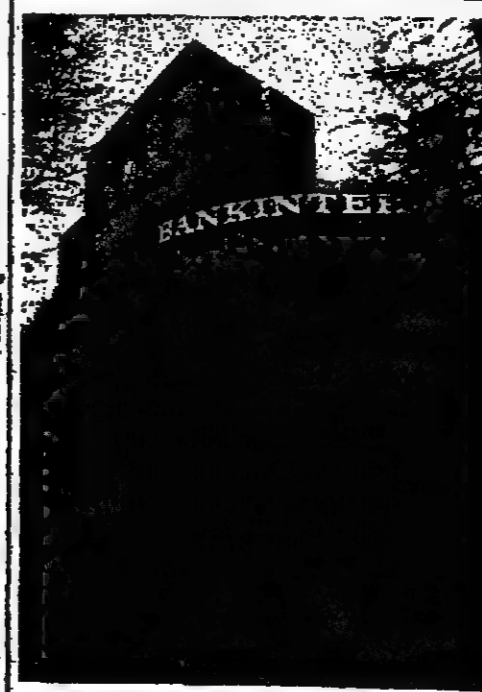
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Key figures on the right wing: Manuel Fraga (left) and Jose Maria Aznar

Peter Bruce on the country's political prospects

Now the Socialists may not be safe anywhere

SPAIN'S general election last October was more than just a cliff-hanger. It was about whether Prime Minister Felipe Gonzalez's Socialist Workers' Party, so firmly ensconced then in the centre of the Spanish political spectrum, could be successfully attacked from both the left and the right.

Mr Gonzalez had gone into the election full of confidence. He had apparently won a war of nerves against the trade unions, calling for more socialist economic policies. He had just completed a successful first term in the presidency of the European Community. And the Socialists had roundly beaten all other comers in elections to the European Parliament in June.

Even the recent past, though, is a poor guide in Spain. The Socialists, defending 184 seats in the Cortes (an overall majority of nine) just scraped home with their majority - down to one seat - intact. In all, the Socialists shed more than 800,000 votes. The Communist-led Izquierda Unida (IU) made spectacular gains on the left, winning 10 seats for a total of 27.

Even more remarkable was the strong showing by the right-wing Partido Popular (PP), using a young candidate, Mr Jose Maria Aznar, as its main challenger to Mr Gonzalez. The PP, which until days before the poll had appeared to be hopelessly divided on policy, increased its vote and won another seat to confirm it as the second largest party in the

Cortes with 106 seats.

At least three seats are still in contention as the courts nullified the elections in some provinces after well-founded allegations of voter fraud. That means Mr Gonzalez could still lose his overall majority.

The arithmetic does not matter much. The Basque Nationalist Party, which runs the Basque Country in coalition with the Socialists, would probably help out in the national parliament.

The important thing is the certainty now that the Socialists can be hurt. Mr Gonzalez has already conceded this by starting to conciliate his critics in the trade union movement this year in order to shore up his left flank. It was the IU's charges that the Socialists had

Leadership struggles have already begun, say insiders

drifted to the right, and of widespread influence peddling among party members, that cost Mr Gonzalez most of the lost 800,000 votes.

But the arrival on the national scene of Mr Aznar, the son of a tax collector and until October Premier of the Castilla-Leon region, has clearly opened up new possibilities to the Socialists' right as well.

Mr Aznar is still finding his feet; and fumbled badly earlier this month when he tried to attack the Government on a

corruption scandal, but Spaniards are curious about him, especially now that the widespread conviction that the Socialists can manage a modern economy is beginning to wane a little.

Both the PP and the IU did particularly well in large Spanish cities, picking away at "yuppie" and intellectual votes respectively. The cities are where the main political battle will be fought from now until the next general election, with most opposition groups implicitly conceding that, for the moment, the highly organised Socialists are very hard to beat in the less developed countryside.

One dangerous exception to that rule, though, was the PP's convincing victory in the Galician regional election in December. Mr Manuel Fraga, the former Francoist minister and founder of the PP, had stepped aside in the general election for Mr Aznar, and took Galicia from a Socialist-nationalist coalition with an overall majority.

Mr Fraga was always assumed to be the PP's chief problem in national politics because of his past links with the dictatorship. But while being Galician himself may have helped, his victory in that poverty-ridden region nevertheless contains a serious message for the Socialists. They may no longer be safe anywhere.

This may soon be especially true in the Basque Country



Felipe Gonzalez, the Prime Minister, shoring up his left flank

and Catalonia, Spain's most heavily industrialised regions, where, until now, the Socialists have been able to take important voting shares in competition with mainly moderate regionalist or nationalist parties. In the Basque Country, the Socialists actually govern in coalition with the Basque Nationalist Party (PNV).

Recently, both the PNV and the governing Catalan group, Convergencia i Union (CIU), have begun heeding calls for self-determination, or the right to decide for themselves what their relationship with the rest of Spain should be. That would not exclude opting for total independence.

The manoeuvring is highly cynical, as both Basque and Catalan leaders know their economies would not survive outside Spain or the European Community. But regional

nationalism is popular politics and with the moderates now jumping on a handwagon ridden so far by radicals and terrorists, the Socialists will have to do a lot to shake off their image as a centralist party with little sympathy for Spain's fringes.

Mr Gonzalez's promise to resign from national politics at the end of this (third) term - it is said he is interested in replacing Willy Brandt, the former West German Chancellor, as head of the Socialist International - has also begun to eat away at the Socialist Party's internal cohesion. Insiders say leadership struggles have already begun.

Of course, Mr Gonzalez could change his mind and try to stay on. The problem then would be whether he knows how to lose as well as he has become used to winning.

Unions and the Government are reconciled

Our mutual friends

WHEN A Socialist Government narrowly renews its mandate in elections, it recognises soon enough who its real friends are and it sets about making amends to those it has slighted.

When a trade union movement's fraternal squabble with a Socialist Government comes within a whisker of bounding it out of office, it rapidly sues for peace because it realises where its real interests lie.

Following the PSOE's hair's breadth win in the October 29 polls last year, a gust of realism is blowing through industrial relations in Spain. Compromise has replaced confrontation.

Neither the Government nor the unions care to be reminded at present of the bitter hostilities that led to a 24-hour general strike just over a year ago. Right now, they are talking and they are agreeing as if they had never done anything else.

The strike, on December 14 1988, was a success in as far as it brought the country to a standstill but it failed in the course of last year to force the Government into an economic policy U-turn. The polls successfully returned the Government to power last October but they did not, by any means, give it a mandate to humiliate the unions.

The two sides have been forced to recognise that they need each other and both have had to back down. The unions are negotiating with Economy supremo Mr Carlos Solchaga whose resignation they were demanding 12 months ago and Mr Solchaga is agreeing to what he refused to do so much as discuss before the polls.

The unions have abandoned their former tactic of presenting the Government with a broad all-or-nothing platform that mixed political issues with those that belong purely to the trade union sphere. The Government has for its part jettisoned its take-it-or-leave-it response to such demands.

Working closely together, the Communist-led Comisiones Obreras (CCOO) and the Socialist-inspired Union General de Trabajadores (UGT) have evolved a mid-term strategy of negotiating grievances on a step-by-step basis with the Government.

In the current round of nego-

tiations the unions have chalked up singular victories. The Government has agreed to a backdated 2 per cent rise in pensions and to a 2.45 per cent hike in public sector salaries to make up for loss of income last year when inflation overran the Government's targets. More importantly, the Government has agreed to the principle of a revision clause in public sector wage rises and to inflation-indexed pensions.

Such successes reflect both the manner in which CCOO and UGT have managed to consolidate the unity which they forged in the run-up to the general strike call and the Government's own political weakness. As far as the UGT is con-

This is the path to a closed shop, warn the employers darkly

cerned, it has established its independence from the governing Socialist Party. The days when the UGT was merely the labour arm of the governing PSOE have ended. CCOO, for its part, reflecting the demise of communism, is shaking loose its party tutelage.

Neither union is willing, at least for the present, to work towards a more organic unity. Both fear that such a development, rather than creating a single trade union movement, would prompt splits in their organisations.

The concessions that the joint UGT-CCOO action has in any case won so far from the Government make such merger moves unnecessary in the short term.

The most controversial Government climb-down from the point of view of Spain's Employers' Confederation concerns its agreement to union monitoring of labour contracts. The employers warn darkly that this development is the first step along the path to a closed shop and shop-floor power invading the boardroom.

"We have no intention of influencing who is hired," says Mr Jose Maria Zuluaga, an executive member of the UGT. "We simply insist that contracts should be honoured for what they are."

The contracts are perhaps the cornerstone of organised

labour's irritation with Mr Felipe Gonzalez ever since he took office in 1982. The Government boasts that 341,000 net jobs were created last year. But the unions gripe that 27.8 per cent of the public sector jobs and 33 per cent of the private sector ones are in reality short-term labour contracts.

Job creation in Spain, the unions claim, masks job rotation. There were some 4m job contracts last year.

For years the stock union complaint has been that the Government, for all its Socialist ancestry, has whittled down the secure and fixed structure of the Spanish job market by turning a blind eye to companies which hire first employment seekers as trainees on a short-term contract and fail to provide the statutory job training.

The unions claim (and the Government now appears to agree) that the training programmes have become a device for hiring cheap, casual labour. Under the agreement the unions will have the power to report employees who do not implement *bona fide* training programmes.

The unions will also be able to report companies which replace employees hired on three-year job contracts, the maximum temporary contract permitted, with new employees hired under the same terms. A third extended practice is to renew temporary contracts as they expire although the employee is entitled, after three years in the same company, to job security.

The distinction between the temporary and the fixed contract employee is an important one, for the latter is protected against unfair dismissal and is entitled to generous compensation should a company enter receivership.

The decision by the Government to bow to the unions on the contracts issue marks a shift in policy. Mr Solchaga and other economic policymakers used to claim that new and flexible hiring and firing rules were just what Spanish business needed - but that was before the Government needed its friends, the unions, to prop up the Socialist administration.

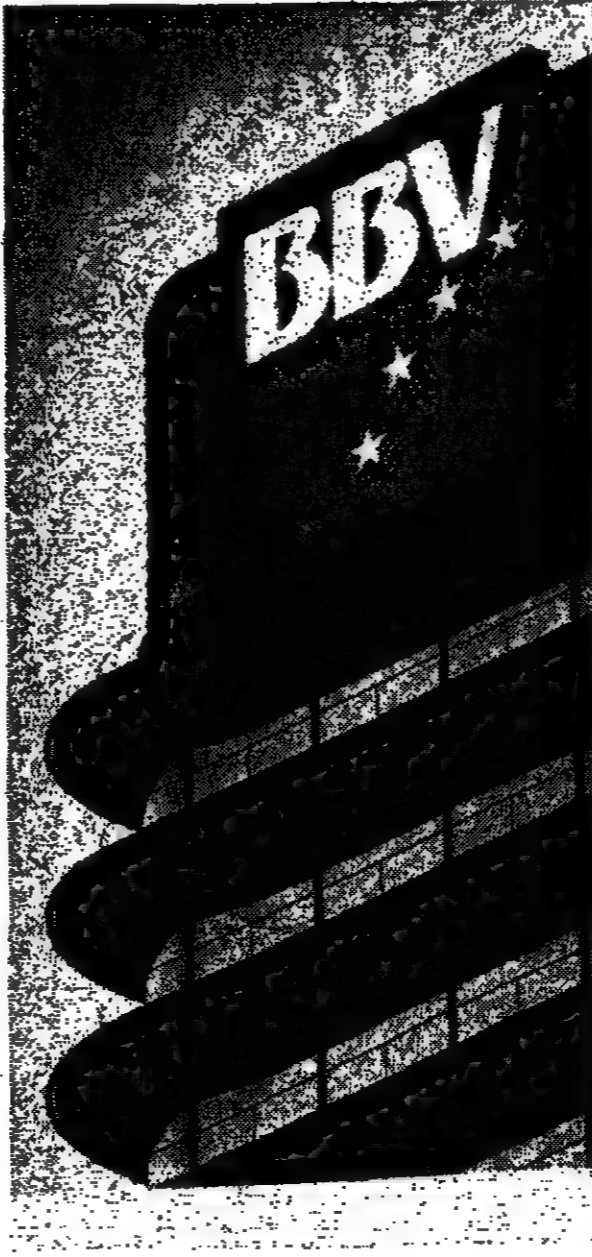
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SPAIN 4

Tom Burns casts an eye over the country's bureaucrats

System needs overhaul

THE HIGH FLYERS of the Spanish Civil Service do not have their sights on becoming permanent secretaries. Long before they have reached the upper rungs of the promotion ladder, they have moved across to the private sector.

"People join the administration," said a senior aide to a cabinet minister, "because they want to discover all the loopholes before they set up their own businesses." It was a particularly jaundiced judgement on one aspect of the Civil Service, but it was not too far off the mark.

Another scenario concerns the low-ranking *funcionarios*, some of whom the public actually meets because they include the permit-dispensing civil servants who are constantly besieged by queues as they sit by their windows in government offices.

Mariano Jos de Larra, a 19th century journalist, wrote a celebrated article titled *Vuelvo a usted mañana* (Come back tomorrow) that charted the eternal procrastination of the paper-pushing *funcionario*. Obtaining the relevant bureaucratic seal of approval today, whether it be to register a birth or a business, has not changed that much since Larra's times.

The problem with bureaucracy in Spain is that it has all the overmanning, centralised and regimented faults of the French system compounded with the inefficiency, inertia and budgetary limitations that characterised the Franco period.

At the top of the market, clever graduates will sit high-jump examinations to join one of the prestigious *Cuerpos del Estado* (State Corps), modelled on the Napoleonic system, and will be making themselves known to the head-hunting community almost as soon as they have started working in the Civil Service.

Members of the high-flying *cuerpos* that deal with trade and with finance, the *Técnicos Comerciales del Estado* and the *Inspectores de Hacienda*, are thick on the ground in the private sector, in banks, in broking firms and in consultancies.

One of the best-known members of the highly regarded state lawyer corps, the *Abogados del Estado*, is Mr Mario Conde, chairman of the Banco Español de Crédito (Banesto).

Politics is another goal for the high fliers. The leader of conservative Partido Popular, Mr Jos Mara Aznar, is an

Inspector de Hacienda, his predecessor, Mr Antonio Hernandez Mancha, is a state lawyer (he was, as it happened, coached by Mr Conde when he prepared his examinations to enter the corps), and the grand

Instead of a six-month wait for a pension, the paperwork is done in a week

old man of the Spanish right, Mr Manuel Fraga Iribarne, currently head of the Galician regional government, is both a diplomat and a member of the *Cuerpo de Letrados de Estado*, an exclusive corps that drafts legislation.

The amount of civil servant talent that lies outside the bureaucracy highlights an obvious problem facing the administration. Political ambitions aside, the drain from the public to the private sector is

caused by the low pay structure and recently the Government has begun to address the issue.

Of all the Civil Service departments, the Economy and Finance Ministry is the worst-hit by defections and it has evolved productivity-linked schemes which in the case of tax inspectors can earn them above Pta 11m a year. Salaries are higher in the private sector but the scheme can allow key officials to more than double the basic salary of a director general, at the top end of the Civil Service and in fact, to earn more than the Prime Minister, whose annual emolument is just over Pta 5m.

At the bottom, "Come back tomorrow," end of the bureaucratic market the problem is of a different order. Mr Joaquin Almunia, Minister for Public Administration, told a parliamentary committee last month that a "massive use" of technology and of new management methods was required to

overhaul the Civil Service.

The fact that Mr Almunia was addressing MPs at all on the issue as Public Administration Minister is a comment on the Government's decision to come to grips with the Civil Service. The Public Administration portfolio was created in 1986, following Mr Felipe Gonzalez's second electoral victory, and Mr Almunia, a former Labour Minister, was appointed bureaucracy supremo with the specific brief of introducing wide-ranging reform to the 220,000 odd employees of government departments.

Mr Almunia believes that a thorough overhaul requires a 10-year time scale, but already he claims some progress. There used to be a six-month gap between a widow registering the death of husband and obtaining a pension. Now the relevant paperwork is completed inside a week. "We've managed to change the whole philosophy," said one of the

minister's advisers. "We now pay out first and then investigate whether the facts are true."

It irks the minister that security for all government offices should be provided by members of para-military Guardia Civil who are trained and equipped, at the cost of Pta 4m a guardsman a year, for national policing. He hopes that they will soon be replaced in the lobbies of ministerial buildings by employees of private security firms.

The Public Administration department has in the meantime managed to establish a horizontal control over the dif-

ferent ministries and is gaining, for the first time, a clear and comprehensive picture of the bureaucracy. An initial policy document prepared by the department chillingly reported that the administration "lacked the necessary means" to identify exactly what Civil Service personnel was required and how to recruit it.

Mr Almunia is adamant that the Civil Service does not need any more paper-pushers (in fact it could do with many less) and that it requires a lot more *funcionarios* providing specific services to the public. In order of priority, the Public Administration Ministry is currently overseeing recruitment to the prison service, to the health department, to the public schooling system and to the Finance Ministry.

A final problem concerns the bureaucratic duplication that has taken place in Spain since the death of General Franco as

a consequence of administrative decentralisation.

In theory, under the quasi-federal framework of democratic Spain, the centralised Civil Service should have been reduced as power was transferred to the regions. In practice, Parkinson's Law has proved its relevance for Government departments in Madrid, often claiming that they needed to improve co-ordination between the regions, have tended to expand rather than to contract.

Mr Almunia's department is less sure about how to proceed in this respect. Old centralist habits die hard and at times when instances of corruption in the provinces are regularly reported and when the self-determination debate has raised its head in both the Basque Country and in Catalonia, there are good arguments for keeping such habits alive.

PUBLIC ADMINISTRATION: THE JUDICIARY

Tortoise quickens its pace

MOST SOCIETIES view their judicial system as cumbersome. Spaniards believe theirs to be worse than anywhere else. At the Ombudsman's office, complaints about the slow-moving judiciary rank second only to those about queues in the health service.

Justice Ministry officials, however, stress that at least as much has been done to overhaul the judicial system as in any branch of the Civil Service. They claim that the administration of the law in Spain is now similar to what it is in France and in Italy.

The overhaul started virtually from scratch. Until recently, the geographical distribution of courtrooms in Spain and the number of judges presiding over them had remained almost unchanged since the turn of the century when Spain's population was less than half what it is now.

The whole system was creaking to a standstill, not least because during the 40-year-

long rule of General Franco, says Mr Liborio Hierro Sanchez, the Justice Ministry's Under-Secretary, "justice was abandoned."

The key issue had become one of speed in the administration of justice, for the actual deliverance of law remains uncontroversial. "The complaints have more to do with the time factor," says Mr Hierro Sanchez. "In contrast, there is a general satisfaction over the actual process of the law once a case comes to court."

Mr Hierro Sanchez argues that thanks to the energy displayed by his department in recent years the time taken to administer justice in Spain has been more than halved. Criminal cases which took an average of four years to reach court midway through the last decade now take two years and a Supreme Court ruling which might have meant a wait of up to five years in 1982 is now obtained in two years.

However, he concedes that although real time in obtaining a sentence may have been drastically reduced, the general perception of a tortoise-like legal system remains unchanged. This is because public expectations have risen and what may appear fast justice compared with a decade ago remains slow by the standards of today.

What the Justice Ministry has done to bring about the change is quite simply to increase facilities. In the past seven years, some 1,000 new courtrooms have been opened and the number of judges in Spain - following the Napoleonic model judges form a corps as do prosecutors and state lawyers - has, in theory, risen from 1,800 to 3,500.

In practice, the current number of judges is closer to 2,300 for some 300 judgeships are vacant. This anomaly appears as a constant in many of the senior corps of the Spanish bureaucracy but it is arguably more grievous in the judicial sector because of the pressing need to improve this public service.

The 300 current vacancies are an improvement on the 500 that existed when the corps of judges stood at 1,800. There are

less vacancies now in real and in proportional terms because of legislation in 1985 that enabled the Government to break down the inbuilt corporatism of the differing corps of bureaucrats by having a decisive say over who, and how many, they choose to elect into their fold.

Becoming a judge, like entrance to any of the corps in the bureaucracy, is by a system of competitive exams and it is alleged that the judges forming the examining board deliberately limited the number of new entrants to their ranks.

This practice used to be common in the Civil Service. At its best, it served to preserve the prestige of each corps, and, at its worst, it ensured that by virtue of the unfilled quota, bureaucrats could enter the private sector and then return to the Civil Service, should they choose to, because there would always be a job waiting for them.

The guidelines introduced in 1985 struck at the root of this self-perpetuating closed shop mechanism by altering the composition of the examining tribunals. The majority on these tribunals is now made up of direct representatives of the

ministry that oversees the corps in question. These nominees on the board have the specific brief of swelling the ranks of the corps as required.

In the run-up to the new legislation, only some 20 new judges were admitted every year. The annual intake over the past three years has been closer to 250.

Compensation has meanwhile come to the judges by way of wage increases of some 30 per cent; their salary structure, while lower than in Britain and in West Germany, is now on a par with that of their peers in France and Italy.

Future progress on cutting down the time lag in which justice is administered in Spain will be the result in part of maintaining this momentum. By 1992 the Justice Ministry hopes to have a corps of 4,000 judges presiding over a network of 3,000 courtrooms.

A further accelerating factor will come with a change currently under way in the judicial process that will allow minor offences to be dealt within a matter of days by what will be a rough equivalent of Britain's magistrates' bench.

Tom Burns



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INDUSTRY AND THE PUBLIC SECTOR

'Greater framework' for INI

BUREAUCRATIC JUNGLES, or heavens, did not come better than the Instituto Nacional de Industria (INI), Spain's sprawling public sector conglomerate.

With a finger in just about everything every pie, from interior design to specialised steel, INI offered a job for every boy that ever was and it enjoyed an outside cushion by way of the state budget to protect it against a real world of profits and losses.

That used to be the picture. It is a different one now. Bureaucrats and fellow-travellers are beating a retreat out of INI. The conglomerate INI is not sprawling, but it is not exactly expanding, either. And there are profits.

A year ago, unnoticed by many, INI changed its statutes to gain greater autonomy than ever in the day-to-day running of its affairs from its big brother, the Ministry of Industry. It was the start of a profound revolution.

It is not a catch-all umbrella for "strategic" companies

The immediate outcome was that the civil servant, *funcionario*, staff at INI's Madrid headquarters, from the door porters and the tea ladies upwards, had the option of early retirement, of accepting a new status as a contracted employee or of continuing on the bureaucratic payroll in the Industry Ministry itself.

Few *funcionarios* elected to stay on at INI under the new terms. The upshot was that the nerve centre of the public sector in Spain has no public servants as such on its books. Virtually all the INI headquarters staff are on everyday professional business contracts and their numbers have been whittled down by a third, from 600 to 400.

Mr Jordi Mercader, INI's chairman, is a man who measures his words carefully



Jordi Mercader, INI's chairman (left) and his predecessors, Luis Carlos Croseter (centre) and Claudio Aranzadi

and he knows how to be deliberately vague when this is diplomatically necessary. He says that being able to hire the staff he wants as if he were running a private company has made a difference. "There is a different tone now," he says, of the conglomerate.

Mr Mercader does not like the term sprawling any more than he likes the concept of expansion. Sprawling is incorrect when applied to the present-day INI and expansion is not the chairman's aim: "the issue is one of growth and that is not the same as expansion."

Mr Mercader talks of growth and of the challenge of "growing properly" in the context of INI being a "great industrial project."

"Great," he says, has nothing to do with being "big" although INI is certainly this, for it is by far the largest industrial group in Spain.

Great means growing and developing as a well-managed and competitive corporation. The language is that of the private sector, which is where Mr Mercader learnt about business. INI is certainly not a catch-all umbrella for companies that the state deems to be strategic and much less is it one for white elephants that have to be bottle-fed for political reasons.

It is arguably because of his

corporate experience outside the public sector that Mr Mercader put profits in a different context to that of his predecessors at the head of INI. Profits in themselves are not enough.

In 1988 INI went into the black at last with pre-tax profits of Pta 30,56n due to the rationalising and streamlining efforts of Mr Claudio Aranzadi, the current Industry Minister, and of Mr Luis Carlos Croseter, who is now running the Stock Exchange Securities Commission after a previous stint in the industry portfolio. The forecast is that in 1989 INI's profits will have doubled.

While such results might be the end-target of most public corporation chairmen, Mr Mercader sees them merely as one particular, though necessary, acid test. "Now is when we have to start thinking, without complexes, about a greater framework," he says.

A clear hint of what Mr Mercader is thinking about came with the sale last December of Enasa, INI's wholly-owned truck manufacturer, to West Germany's MAN and Mercedes-Benz.

Volvo wanted Enasa and so did Daf and Fiat, but Mr Mercader persuaded the Government to sell 60 per cent of the company to MAN and a

further 20 per cent to Mercedes-Benz because, as part of the deal, INI would acquire an 8 per cent stake in MAN and a seat on its board. Never before had the Spanish public sector holding held stock in a foreign company.

The real prize of the Enasa sale was the agreement over INI's future co-operation with the West German group. Now that he has established a beachhead in Europe and an alliance with an industrial giant, Mr Mercader feels more confident than ever about INI's possibilities.

The "greater framework" could well involve similar sale and equity swap deals between INI companies and other multinationals. Mr Mercader talks of "going international with a competitive strategy" and of "sharing projects with the private sector on an equal basis."

It is not a framework that has anything to do with bureaucracy.

Tom Burns

WHEN AN unruly colonel was sent to jail last year, under direct orders from the Defence Minister, for advocating an end to conscription and its replacement with a professional army, many people thought the punishment excessive. After all, public opposition to conscription in Spain is widespread and hardly new.

True, Colonel Amadeo Martínez Ingles, who is still in jail and unrepentant, also suggested the army was so poorly trained that it could hardly be considered operational. Nevertheless, the Government's reaction demonstrated the unease that exists in Spain about military affairs. That unease is rooted in the military's past history, and it spills over into any discussion about the role of the armed forces.

After decades of dictatorship and isolation, the transition period that followed Franco's death in 1975 proved especially difficult for the military. The Spanish armed forces found themselves ill-equipped for the new open and democratic environment. The military's frustration at its loss of status in Spanish society exploded into a tragicomic coup attempt in 1981. The coup failed and the military's isolation became more acute, forcing the military hierarchy and the politicians to take another hard look at the problem.

The turning point came when the centre-right government of Leopoldo Calvo Sotelo took Spain into Nato in 1982, despite widespread popular opposition.

Nato was perceived as dominated by the US, and there was still resentment over the military pact the US had made with General Franco in 1953. The pact allowed the US to establish bases in Spain, and subsequent secret agreements gave the US extensive rights in the country in the case of war or of an emergency. In return, the US provided Spain with economic and military assistance. In the view of many Spaniards, the pact and the close relationship between Washington and Madrid that followed conferred an unacceptable degree of legitimacy on the Franco regime.

When the Socialists who had opposed Nato membership came to power later in 1982, they immediately froze Spain's entry. Mr Felipe Gonzalez, the Socialist Prime Minister, subsequently changed his mind, but kept to an electoral pledge to put the issue to a referendum which took place in 1986. The Socialist Government campaigned vigorously in favour of remaining within the alliance though outside its military command and with a smaller US military presence, and won the vote.

Spain's entry gave a new purpose to the armed forces, especially to the navy and air force which have been able to work closely with other Nato forces. But Spain's

THE MILITARY

Forces from the past

role within the alliance remains ill-defined — a consequence of staying out of the military command though, unlike France, it sits on Nato's Defence Planning Committee and its Nuclear Planning Group.

Spanish officials first suggested a role for Spain along an axis going from the Balearics to the Canaries across the Strait of Gibraltar. This has remained on the drawing board, not least because control of the sea lanes across the Strait is already the responsibility of two Nato commands: Iberlant, under Portuguese control for operations in the Eastern Atlantic, and Gibraltar's Command which Spain refuses to recognise because of its dispute with Britain over the territory.

Negotiations over six co-ordinating agreements outlining Spain's responsibilities have also dragged on. These agreements cover:

Nato has opened up new perspectives for the army

- defence of Spanish territory;
- air defence and air space control
- the establishment of a new Nato naval force under Spanish command for the Strait of Gibraltar;
- sea and air operations in the Eastern Atlantic;
- the use of Spanish territory as a transit, support and logistic area.

Western diplomats in Madrid say agreement on some of these proposals may be reached by 1991. But the delays have caused irritation among the Spanish military who blame the Government's vacillation on full integration. "Going into Nato was a political decision, but military integration is not a political question but a technical one," says Mr Javier Ruperez, defence spokesman for the opposition Partido Popular. "If Spain had been fully integrated in the military command, the approach to a solution over Gibraltar would have been easier," he adds.

The use of Spain for a support role in the distant Central European theatre may

be less crucial with the end of the cold war. With an eye cast on Eastern Europe, Spanish analysts are wondering whether the changing international political situation will not, at last, give Spain the opportunity to play a more important role. The idea is that the perceived threat may no longer be on an East-West axis, but on a North-South one, with defence of Europe's underbelly a more important priority. "Nationalism and fundamentalism pose a growing threat. This is the case in the South, and it would tend to reinforce Spain's role in Nato," Mr Ruperez says, although there is a degree of self-interest in Spanish concerns in view of Spain's presence in the two North African enclaves of Ceuta and Melilla.

If Nato has opened up new perspectives for the Spanish military, the sense of unease about its future has not altogether disappeared, especially within the army which has remained more resistant to change. The armed forces remain top-heavy with too many generals and too few properly trained servicemen. The Government has begun an ambitious restructuring programme aimed at modernising and streamlining the forces. Mr Narcis Serra, the tough Catalan Defence Minister, has been pushing through reductions and has introduced promotion on merit, despite an outcry among sections of the military. Western analysts believe both moves were long overdue and will strengthen Spain's forces.

The Government has also decided to cut conscription from 12 to nine months over the next five years, unintentionally fueling the debate about a professional army. Officers argue that it will be even more difficult to give recruits adequate training in so short a time. The Government opposes a professional army on the grounds of costs, but the issue also raises fears about the potential political power of a more cohesive and better-run army.

The forces' state of readiness has improved in recent years, with the navy regarded as the most modern and the army giving cause for most concern. Co-operation with other Nato forces has tended to reinforce a desire for greater professionalism, though this did not prevent a work-to-rule by air force pilots last autumn. One of the forces' problems is that highly-skilled technicians can usually get better-paid civilian jobs. But for all the shortcomings, there have been considerable improvements. "The military are moving away from being concerned with stopping revolutions, and that is a positive development," says one analyst.

Patrick Blum

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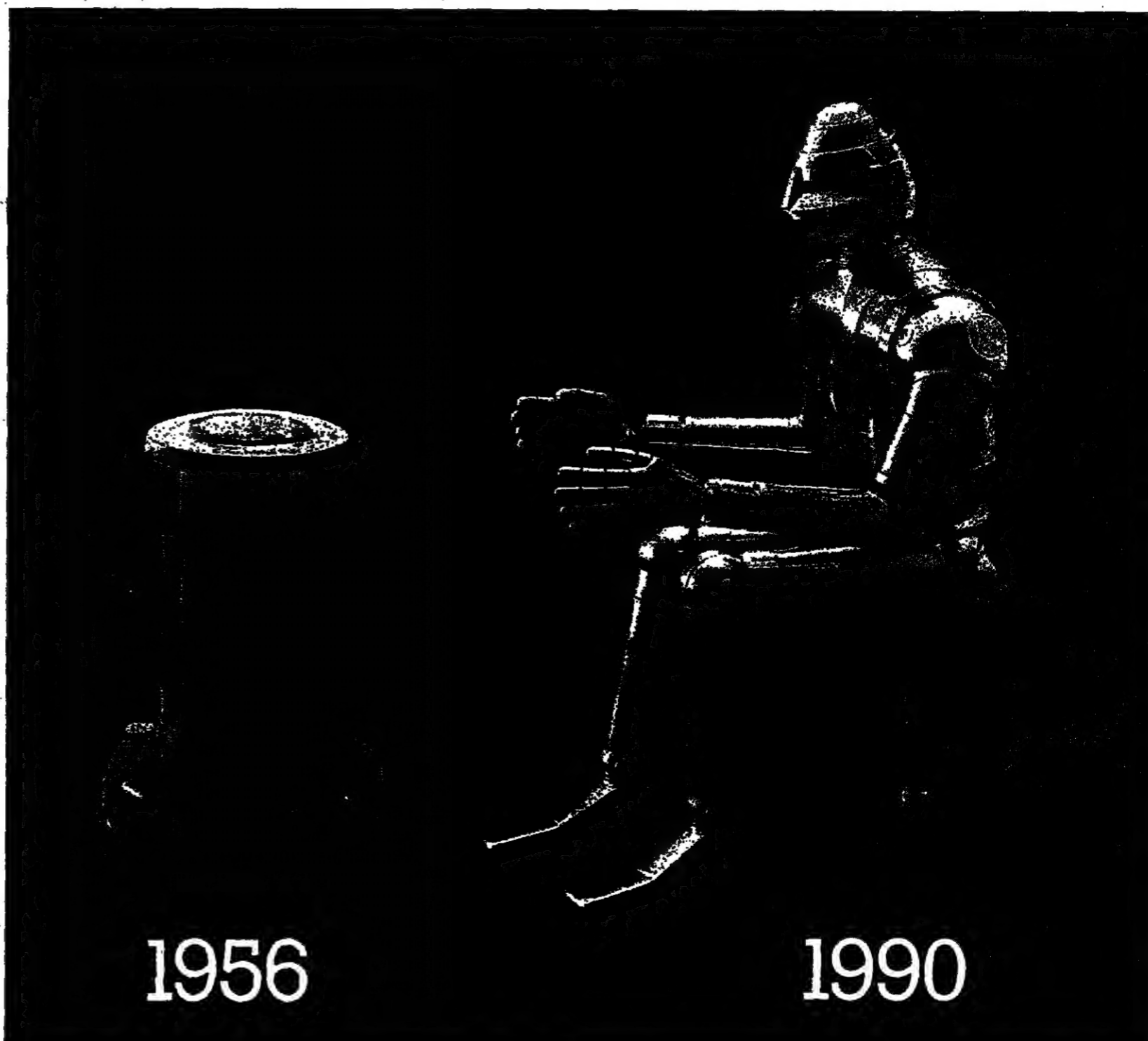
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Marketing, not industry, lets the country down, says Peter Bruce

Bimbo needs a new image

WELCOME TO the home of Bimbo bread and Bonka coffee. The Spanish also market a gin with a name that is so peculiar that it is unprintable in this newspaper.

The bread and the coffee are fine, but if brand names contribute to the image, foreigners have of Spain and its products, Bimbo and Bonka, in the UK at least, would be bad news.

But Spain began its industrial conversion 10 years ago with little marketing tradition. Supermarket managers still remember shoppers queuing for goods. Industry was protected and what the Spanish did sell abroad was often done through foreign manufacturers buying local products and branding them as their own.

Since 1986, when Spain joined the European Community, Spanish industrial companies have made good profits (excepting, of course, in lighted sectors such as steel and heavy engineering). As a four-year-long consumer boom now begins to peak, much of industry has been able to clear its debt and modernise its production lines. Marketing is the new challenge.

The reason is obvious. Last year the deficit in the current account of Spain's balance of payments more than quadrupled to a record \$11.6bn.

Tourist income, which was once the saviour of the country's balance sheet, can no longer cover Spain's rapidly growing import bill nor the average Spaniard's apparently insatiable desire to spend his or her income. Spaniards are still not long-term savers.

Indices of foreign investment capital, which had pushed the country's reserves up to \$48bn by last autumn, have slowed as foreign investors have become more selective about what they buy. Spain has little choice now but to begin exporting its way out of trouble.

It will be a tough assignment. The peseta is being kept artificially strong by high interest rates designed to dampen consumer spending. Imports grew by 20 per cent last year while exports, in value terms, managed a rise of only 12 per cent.

One of the main dangers for Spain lies in the fact that, according to the Government, some 45 per cent of the current account deficit last year was accounted for by inflows of capital goods destined to feed a huge public works programme and continuing modernisation of production processes in factories. Spain cannot now stop these imports without endangering its capacity to fund for itself.

This level of demand for capital goods, say some economists, could continue for the next five to seven years and Spanish manufacturers are having a hard time keeping up with their own market.

"They are importing everything," says Mr Enrique Kalbel, president of Sercobe, the national capital equipment producers group. "Sometimes they import for price and sometimes just for the name." Imports now have about 60 per cent of the capital goods market and that share is growing.

What, then, can Spain sell abroad? Its myriad and often high quality consumer products are practically unknown beyond

its borders. The capital goods it manages to export are not that sophisticated and may soon run into competition from Eastern European machine tools or construction equipment.

But most Spanish observers, like Mr Kalbel, seem to think the problem has been reduced to image only. Mr Ernesto Tejedor, vice-president of the state's export promotions operation, Icoex, agrees.

"We have difficulty with Spain's image as an industrial country," he says. "People (foreigners) still think we export only agricultural produce." In fact, Mr Tejedor claims, about half of Spain's exports are "industrial," or would have been processed in some way, with food products accounting for just a quarter.

Icoex is making a major effort to promote Spanish brands abroad and its budget for exhibitions and training Spanish businessmen in how to sell has more than tripled to Pta 20bn in four years.

But the products are hard to spot. The million or so cars exported from Spain every year are all made by foreign multinationals and do little to promote the country's reputation for quality. Food poisoning scandals in the past have damaged prospects for some products and Spanish wines, particularly Rioja, remain imbedded in the minds of foreign consumers as cheap and nasty.

The truth is that most Riojas are nothing of the sort. Some stand up to the best of their French competitors, but the French have done a superb marketing job with wine abroad while the Spanish have done practically nothing. With foods and drink, says Mr Tejedor, almost all the added value is merely a question of image.

Things may now be changing. "Our business culture has almost completely," says Mr Tejedor. Some 40 per cent of the capital equipment now being used in Spanish industry is less than four years old, and the Government believes that by 1994 60 per cent of production facilities will be less than six years old.

Where they can afford to, Spanish exporters are beginning to establish their own distribution networks in client countries to escape often weak services offered by local agencies. Companies such as Freixenet, which produces *cava*, Spanish "Champagne", have been very successful abroad. Freixenet, claims Icoex, has helped push *cava* sales in the US well beyond French Champagne.

While Spaniards are convinced that their export image problem abroad is simply a matter of education and not related to real quality problems, consumer resistance to the "Made in Spain" label is obviously still high. A great deal of Spanish olive oil is sold in bulk to Italy where it is bottled and exported as Italian produce.

Spain produces about 20 per cent of the world's black truffles but has to market them as French to get them into good foreign restaurants. Computer numerically controlled machine tools made in the Basque Country are still being sold to West German producers, who label and sell them as German. Fagor, the Basque

white goods giant, was until recently making dishwashers for Hoover in the UK.

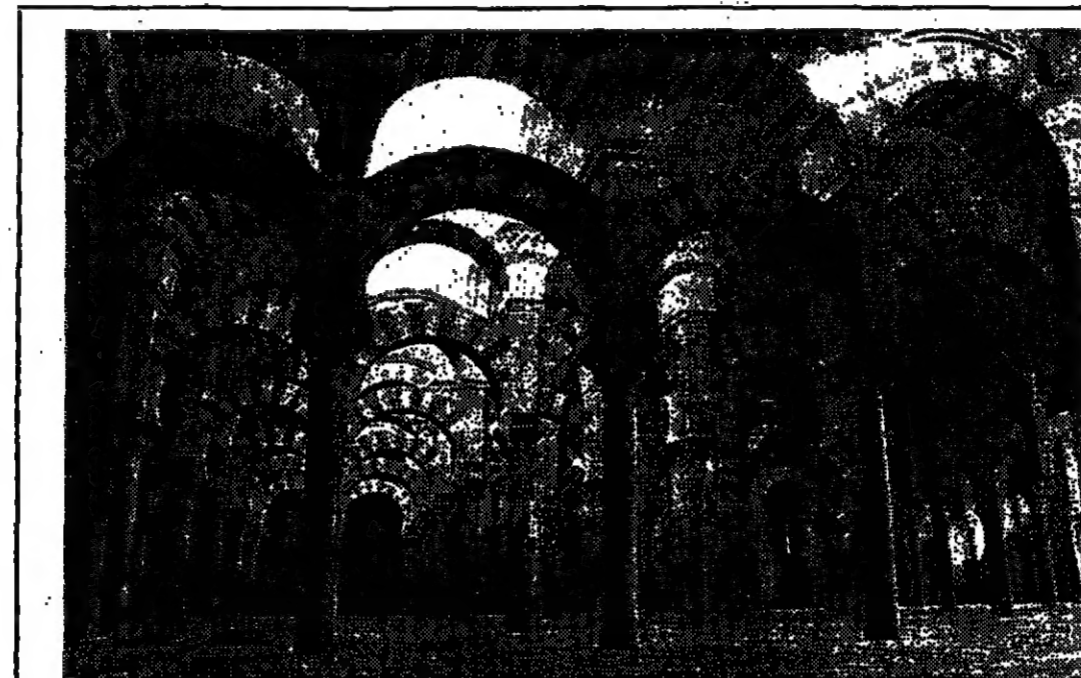
Selling goods to other competitors may well imply a lack of confidence on the part of the real manufacturer. Spanish businessmen admit they still do not travel enough, still have language problems when they do and still have great difficulty in absorbing the sheer complexity of some European Community markets, where 70 per cent of Spain's exports go.

The coming generational change should solve that. Young Spaniards are thirsty for language tuition and many spend a year or more studying abroad - something their immediate seniors often never had a chance to do. "It is almost impossible to find a job today without knowing English," says Mr Tejedor. Use of French, the second language of the Franco era, is declining.

There is a long way to go, though, before industrial exports (industrial or agricultural) become the sort of thing Spaniards could turn to if they were ever in need. The Government does not help much. The Prime Minister, unlike his British or West German counterparts, travels in small groups without long ranks of businessmen in tow.

"The Government is still dedicating more time to traditional products like foodstuffs than to industry," says Mr Kalbel at Sercobe.

And smart young Spaniards head first for the financial sector before trying to look for work in industry. The banks, any way, own much of Spanish industry and industrialists are not prominent. The media does little to portray industry as anything more than the thing that banks sell bits of when it suits them.



Cordeiro's grand mosque has helped to make the Andalusian town a popular tourist attraction

FERTILISERS

EC therapy seems to work

SPAIN'S accession to the European Community in 1986 was electric shock therapy for its depressed, overweight, fertiliser industry.

Like its European counterparts, the energy-hungry industry had a long history of small-scale localised manufacture, but while other European producers began to put their houses in order after the oil crises, and by the mid-1980s were on the way to economies

Factories churned out nutrients, oblivious to the laws of supply, demand or geography

of scale, cutting the number of companies from 40 to eight - the Spanish carried on, regardless.

Spanish fertilisers until 1986 enjoyed heavy protection: imports hampered by tariff barriers and bureaucratic snarls, were less than 1 per cent of the market. Thirty-two factories churned out nutrients for a slow agricultural market, oblivious to the laws of supply, demand or geography.

Southern plants moved goods that travel badly at high cost, to northern outlets. Northern factories sold to the south.

The industry lost money.

EET (Union Explosivos Rio Tinto), Spain's biggest chemicals and agro-chemicals producer, was deep in the red. Finally in 1984 the authorities imposed a rationalisation plan on the industry, aiming to prune bloated over-capacity and modernise outdated equipment, management and distribution.

But 1986 caught the industry mostly unprepared. Fertiliser imports skyrocketed to 31 per cent of the market in 1987 and now, 26 per cent. Chronic overcapacity became not a problem but a potentially fatal disease.

Now, however, the industry has slumped dramatically. EET and its closest rival Croc are no longer separate groups: they merged into Ercros, a holding company indirectly controlled by the Kuwait Investment Office through its majority share in the parent group, Turras, which bought into both groups in 1987 and pushed them together in 1988-89.

In 1988 the fertiliser units of EET and Croc - now Ercros - were hived off into a new subsidiary, Fertilizantes de España (Fesa), which now represents 65 per cent of Spanish production and 65 per cent of the market, according to Mr Javier Vega de Seoane, the 42-year-old chairman of Ercros.

Mr Vega de Seoane, a former

senior executive with the state holding company, Instituto Nacional de Industria (INI), is out to revamp the production structure, finances and prices, management and marketing of an old, labour-intensive fertiliser industry. It must, in his words, "Europeanise itself."

From alliances with European manufacturers and play its part in re-ordering the European market.

Alliances would mean, says Mr Vega de Seoane, working out with European manufacturers sales areas that follow a geographical or product logic, seeking a nutrient produced most cost-effectively, with low transport costs to nearby markets where other manufacturers may now operate.

Meanwhile, Fesa is undergoing a "scrap and revamp" redesign, under a five-year Pta 40bn investment plan that, says Mr Vega de Seoane, "sheds what was obsolete and makes good units better, concentrating plants and improving the use of capacity."

Eight plants have gone. Fine tuning has begun. A key late-1989 move by Ercros was to acquire control (80 per cent with the option of 100 per cent) of Enfersa, INI's nitrogenous nutrient company that ran modern, efficient plants like Sagunto on the Mediterranean coast. INI did not feel Enfersa stood much chance of coping on its own in the EC and let it go to Ercros.

Ercros has now worked its way up to sixth place among European fertiliser manufacturers but Mr Vega de Seoane has no plans to buy out the three or four small, remaining Spanish manufacturers. His

object, he says, is not to corner markets but to organise key products more logically, rationalise production-oriented management to make a market-oriented, to take advantage of abundant, competitively-priced raw materials - above all sulphur and sulphuric acid (Europe's cheapest), phosphorous rock imported at low cost from Morocco, and potassium-based products, to increase productivity and start turning

Raw material prices are competitive - sulphuric acid is Europe's cheapest

a profit. It has been a rough ride for Fesa to 1990 amid fierce competition from price-cutting European manufacturers keen to get into the Spanish market. Inherited EET debts and 1988 losses of Pta 8bn - but it broke even in 1989 and in 1990 hopes for a Pta 35bn profit. This year the group will produce about 6m tonnes of fertiliser, with sales of Pta 150bn (30 per cent more than 1990).

Once, there were 32 Spanish fertiliser plants. Then, there were 20. Soon, there will be 11. But this new scene, says Mr Vega de Seoane, offers better service to the customer, on a more logical basis, with more rational logistics - the north produces for the north and the south for the south, cutting transport costs to a minimum. Protectionism has ended; professionalism has begun.

Diana Smith



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BANCO DE SABADELL
Banking on time in Spain

Patrick Blum analyses Telefonica's modernisation spree

Call for 500,000 lines

IT IS raining, traffic comes to a halt, taxi drivers lose their temper, and walking through some of Madrid's streets becomes an obstacle course on and off the pavement and around barriers, all the time keeping a sharp look out to make sure of not slipping into a ditch. Who or what is responsible for all this misery?

The answer, leaving the rain aside, is Telefonica, Spain's telephone monopoly, and the company's plans to modernise and expand its network for which almost every road and the smallest street seems to have been dug up to install new glass fibre cables.

Work appears to be proceeding apace. It needs to. With about 500,000 people waiting for telephone lines, down from an all-time high of over 600,000 last June, the company is stretched to the limit to overcome the backlog of unsatisfied demand as well as new orders. New subscribers must wait several months, and in some cases up to a year for a line, depending on which part of Madrid they are in. Telefonica's Mr Luis Gomez says that demand for telephones and connections to facsimile and telex machines rose more than 15 per cent last year and is continuing to grow. In the circumstances, the company does

not expect to catch up with demand for two to three years. To speed up installation of new lines, Telefonica has taken on AT&T Network Systems as a third switching equipment supplier, in addition to Alcatel-Standard Electrica and Intel-LM Ericsson. After a series of bad delays, Telefonica has set monthly targets, a move which it hopes will prevent bulging up of work towards the end of the year. Strict financial

It will have to cope with the Olympics and the Seville exhibition

penalties will be imposed on suppliers for failing to comply with the targets. But the pressure on Telefonica is unlikely to ease up. In 1992 it will have to cope both with the Barcelona Olympics and the Universal Exhibition at Seville. To meet that challenge, Telefonica has already decided to channel some Pta 90bn (€500m) this year alone towards improving and expanding Barcelona's telephone network. This is part of a general programme of investment, which envisages spending about Pta 600bn (€3.6bn) this year and every year until 1994 to develop the national network including

digitalisation and the provision of new services.

That level of investment will put a heavy burden on Telefonica. "There is a danger that the financial balance of the company could be undermined," Mr Gomez admits. In 1988, Telefonica returned Pta 61.5bn in net profit and it expects this to rise by about 9 per cent for last year, but there will be pressure on the amount of dividend the company will be able to afford to distribute as long as the restructuring is under way.

To finance the programme, Telefonica will draw on its own resources, but it is likely also to seek to raise money on the domestic or international markets. On the revenue side, it is negotiating with the Government to raise prices and simplify the tariff structure. "At the moment there are more than 1,000 different tariffs," Mr Gomez says. The company hopes that by the end of 1991, prices will be more in line with those in Europe. International calls are substantially more expensive than in other European countries while local calls are much cheaper. The company wants to redress that balance, though it may face some tough opposition to any increase in domestic charges. The company is also seeking a role as an international

operator, rather than supplier. Last July, it acquired 10 per cent of Entel, Chile's largest telecommunications transmission group. Telefonica had been trying for more than two years to enter the Latin American telecommunications market. It had previously unsuccessfully bid for a stake in the Compania Telefonos de Chile, which was privatised in late 1987.

Other international efforts have been directed at Argentina and Mexico. Over a year ago, Telefonica offered to buy 40 per cent of the Argentine state-owned telephone monopoly which the then Radical Government was planning to privatise. After the Peronists' election victory last year, the deal ran into trouble and prospects remain uncertain. The new Argentine Government is expected to study all the bids in March and take a final decision in April or May.

Telefonica has made a similar approach to Mexico's Telcel and hopes for a response later this year. Whatever the outcome of these proposals, they will not be Telefonica's last forays abroad. Under its new chairman and management, the company's dual strategy of modernisation and development at home and international expansion is expected to be pursued even more aggressively.

EDUCATIONAL REFORM

On paper, it's all change

WHEN MR Felipe Gonzalez swept to power in the 1982 general elections, his party manifesto promised to raise the school leaving age from 14 to 16. Next month Mr Javier Solana, a Socialist Party stalwart who was Minister of Culture in Mr Gonzalez's first Government and is now Minister of Education, will begin to meet that promise by formally moving an educational reform bill in Parliament.

The reform is more than overdue. Earlier legislation raising the minimum employment age to 16 has created a two-year gap for those who end their compulsory schooling at 14 as at present and are unable to enter the job market although they have neither the means nor the inclination to continue their education.

But the bottom line of the bill, Mr Solana told a parliamentary committee, is to create an educational system that will allow Spain to win "the challenge of European integration".

The reform, as such claims simply, goes much further than keeping teenagers on in the classroom for another two years. With a budget of Pta 960bn over the next seven years, Mr Solana intends to: create a new division between primary and secondary schooling; overhaul the sixth-form tier to allow for technical and

vocational options in addition to the university entrance curricula.

● reduce the present five-year university degree courses to three.

● introduce new subjects, ranging from music and plastic arts to accountancy and marketing, to the general syllabus. On paper at least, the Reform of the Educational System Law must count among the key legislative packages sponsored by the PSOE and it is by far the most important one in the social field.

It will replace an educational law that was framed in 1970 — at a time when General Franco, who had still five years to live, maintained Spain in isolation from Europe and when the Catholic Church had a major say in the nation's education.

Mr Alvaro Marchesi, Director-General of Educational Reform and one of the fathers of the proposed legislation, warns that although the overall design of the bill is a good one, "the real test is to implement it".

The law is extremely ambitious in its scope although, indeed, it could hardly be otherwise given the major changes that Spanish society has undergone over the past 20 years. But Mr Marchesi fears that a reform with such ambitious scope will "stir up all the underlying conflicts in

Spanish education all over again."

One potential trouble-spot concerns the teachers and another the students.

The teachers maintained a six-month strike two years ago and are awaiting a new wage deal which, under the terms of the settlement, is due to be announced at the end of this year. Since the teachers are the linchpin of the success or failure of the educational reform, they are unlikely to waste the golden opportunity to press for their demands that has been presented to them by the enactment of the new legislation.

Spanish teachers — perhaps like their counterparts elsewhere — feel they have fallen well behind on the salary ladder that they have limited opportunities to retain and improve their qualifications and that their career contains few, if any, professional incentives.

A clear problem concerns the division among the teachers over the possible introduction of salary scales which do not exist as such in Spain. The Education Ministry, which is all too aware of the profession's low motivation, would like to build these into the new wage agreement but it has encountered staunch opposition to the concept of salary differentials among the main teacher unions.

The students showed their muscle three years ago during an extended period of demonstrations over the issue of restricted entrance to university degree courses. To a large extent, the protests cost Mr Solana's predecessor his job.

The new legislation will make access to the university campuses still more selective and it is very much an open question whether Spanish students will take to the higher education alternatives such as technical colleges and further education colleges that are specified in the bill.

"A major problem is that the Spanish family continues to view a university place as the sole objective of education," says Mr Marchesi. "It is assumed that everybody has a right to a university education because a university degree means social and economic promotion."

Such perceptions are understandable because under the existing education system, in which compulsory schooling ends at 14, secondary education is perceived as a preparation for university entrance. The assumptions are, however, wide of the mark; in the event, between 30 and 40 per cent of students who embark on secondary education drop out before they sit the university entrance exams.

Tom Burns

Diana Smith examines the country's job training programme

Trying hard, must do better

WHILE THE Spanish Government's ambitious job training programme looks impressive on paper, in the view of the Communist-led Comisiones Obreras (CCOO), Spain's second largest union, the programme suffers in practice from severe shortcomings.

It is out of touch with the reality of Spain's job market, says the CCOO. Basic training for youngsters in the state or church school system often uses outdated equipment or techniques that industry has scrapped. The early training that starts at 12 is almost adequate, say union officials, but specialisation from 14 to 16 is neither sufficiently specialised nor up-to-date.

This could improve, the union says, if firms would sharply increase apprenticeships for youngsters still specialising at school: three

months' practical work with a company would enhance young people's preparation for the technical demands of today's industrial and business world.

What does not help them, say union officials, is learning, for instance, rudimentary techniques and repair of electronic equipment that is obsolete — a chronic defect of occupational training.

Furthermore, training courses, job creation systems, worker-recycling and upgrading programmes promoted or subsidised by the Ministry of Labour are, in the unions' view, haphazard and uneven. While some fit the bill, installing the right skills for the right jobs in the right locations, others receive generous state and EC aid and give unsuitable courses — such as welder training with tech-

niques that industry or construction no longer uses, or courses in chemical industry work in regions with no chemical plants. Spain does not have a very mobile population.

The problem, in a land of 2.7m unemployed people, requires a consensus of management and labour, not just official study and debate. The General Job Training Council, a tripartite body of government, business and union representatives ostensibly set up for this purpose, has, in the CCOO's view, been "running in permanently" since its

creation three years ago and failed to gear basic and occupational training, and upgrading of experienced workers, to the swiftly-changing technological requirements of the Spanish market.

And union-management dialogue tends to boil down to money rather than how to achieve high-quality training and retraining throughout a person's active life, say critics of the job training programme.

The authorities have recognised that the programmes need urgent fine-tuning. "We went first for quantity, now

we aim for quality," say Labour Ministry officials, who point with some pride to occupational training of 2m people since the programme began in 1985. In its first year it reached 60,000 people but by 1989 the figure had leapt to 500,000.

While a meagre Pta 5bn (€44m) was spent on training in 1983, spending last year from the EC Social Fund exceeded Pta 150bn.

Up to 1992, the Social Fund plans to allocate US\$3.8bn to Spain for job training — and

64 per cent of these funds will go to the less-favoured regions.

The Labour Ministry and its National Employment Institute (Inem), which oversees occupational training, intend to inspect every training course in Spain this year and to try harder to ensure that training meets the needs of the market.

In 1987 Inem commissioned a permanently-updated study of job and training needs. This year it will begin follow-up work to check if the right skills are being taught and are

applicable to sectors where workers are needed.

The initial stampede for quantity seemed the only way to get training moving and stem the rising tide of chronic young unemployment: before negotiating its EC treaty, Spain had had neither enough

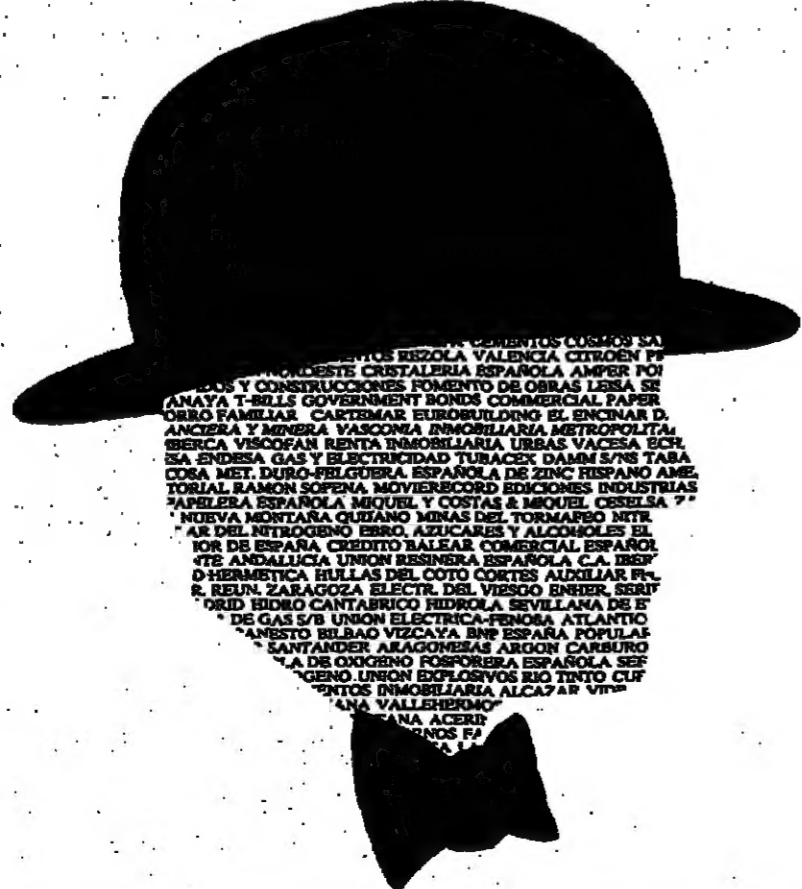
money, teachers or instructors to tackle the massive training and recycling it needed. The current official follow-up involves a sweeping analysis of who has been trained, where and by whom, whether courses meet specific needs or not, and if appropriate skills are developed. Reflecting union preoccupations, Labour Ministry spokesmen admit that it is useless, as has been the case, to have a plethora of building worker courses in Extremadura, where there is a glut of unemployed builders — while

Andalusia, which is desperate for building workers, has no suitable courses to train new labour in this craft.

Do courses lead to jobs? And do the jobs draw on the skills learned in courses? In part, yes, says the Ministry: in 1989 more than half of the people who went through courses got jobs for which they were trained — especially in the food and transport industries. And in 1989, 430,000 new jobs were found for young people.

Nevertheless, too many young Spaniards are on the dole and risk staying there for years — or disappearing into the submerged economy. There is no question that administration, management and unions are acutely aware of the problem and each in their own way, anxious to assuage it. How soon, and how effectively, is still in question.

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SPAIN 8

Far too many Spaniards live in poverty, reports Patrick Blum

The view from the bottom of the tower

ON A clear day, from the top of the Torre Picasso, Madrid's newest, highest, brightest and most exclusive office tower, you can admire the picturesque landscape that leads to Segovia, Toledo and Guadalajara.

Few people will have the opportunity. The tower is reserved for a privileged few: financiers, stockbrokers, media, public relations and international auditing companies, and the plush offices of real estate and construction groups. They represent a cross-section of Spain's new wealthy entrepreneurial elite. The tower itself is part of a vast commercial and business centre with an indoor shopping arcade of smart boutiques, cafes and restaurants, one of which,

Many of the jobs are too uneducated to obtain the limited help that is available

the Cafe del Pintor, even offers a "Menu Especial Yupis".

If the tenants of the Torre Picasso lowered their sights, they would find a less picturesque landscape of poor housing, squalor and poverty much nearer home. Madrid is mainland Spain's richest city, but it can also claim to have the highest concentration of people living on or below the poverty line.

According to a study published last year by Caritas, Spain's largest private charity, there were more than 151,000 families comprising about 700,000 people or almost 15 per cent of the Spanish capital's 4.7m population (including outlying districts) living in poverty. That figure, says Mr Manuel Fernandez, Caritas director in Madrid, should be seen as a conservative estimate based on taking Spanish - rather than European - average incomes as a base for calculations which were carried out according to European Community criteria by taking half the average income as the poverty line.

In Madrid's case at the time of the survey, that meant anyone with a monthly income of Pta 20,300 (£112 at current exchange rates) or below.

Out of this number, about 31,000 families (160,000 people) were living in severe poverty with a per capita income of Pta 8,000 or less, with some 30,000 people suffering from malnutrition. At the moment, there are more than 20,000 people on all sorts of waiting lists, needing urgent help in Madrid, Mr Fernandez says.

The situation in Madrid is not unique. In a comprehensive national survey of rural and urban areas at the end of 1989, Caritas estimated that about 8m people could be described as living in poverty in the whole of Spain.

Mr Cruz Roldan, Caritas national general secretary, says the study created an outcry and government officials dismissed its findings as exaggerated. "But they never produced an alternative or equally comprehensive survey to prove that we were wrong. In fact, a survey by the Banco de Bilbao in 1988 put the figure at 10.5m. You can't accuse the Banco de Bilbao of being biased. Another study by the UGT (the socialist trade union) put the number at 11m," he says.

Whatever the exact figure, it is generally accepted that the number of people living in poverty is unacceptably high. Caritas officials say that there has not been any real change in the overall picture. "We believe that the number of people living in poverty has remained the same or grown since our study," Mr Roldan says.

Rural poverty is not new in parts of the provinces, whether in Extremadura, the large and poorest region bordering Portugal in the south-west, in Andalusia, Castilla-La Mancha and Galicia to the north-west, but is exacerbating poverty in and around the main cities. The influx of people from the countryside to the towns has created some serious black spots in or on the outskirts of some of the country's major cities or tourist centres, from Madrid to Barcelona and Bilbao in the north, Malaga and Almeria in the South.

Spain is expected to spend about Pta 945bn (£5.2bn) to prepare for the 1992 Barcelona Olympics and the Seville Universal Exhibition. Both towns have gone through a

spectacular boom with unprecedented levels of investments both local and foreign, vast construction projects, new services and tourist facilities. Yet despite the strength of economic activity, both towns remain affected by poverty.

Barcelona is the proud capital of Catalonia, Spain's richest province after Madrid and the Balearic Islands which have the highest per capita income mainly from tourism. Yet a recent study shows that about 15 per cent of Catalonia's families can be classified as poor. In some of the city's districts, the proportion reaches 32 per cent of families.

There are several causes for such poverty. In the big cities, in addition to migration from the land, unemployment is a major cause, foreign immig-

The influx of people from the countryside to towns has created serious black spots

ration has contributed, so have alcoholism and, increasingly, drug abuse. On the land, there has been a gradual impoverishment of some rural areas. Poor agriculture and low educational levels - too few schools and teachers - will trap people with no independent resources to draw upon.

Poor health and illiteracy are widespread problems among the poor. Gypsies, women and people in the 45-55 age groups are worst affected. Caritas estimates there are 80,000 people totally illiterate, and 800,000 partially illiterate - that is with only the basic ability to read and write simple texts - in Madrid alone.

This pattern of poverty with cultural deprivation creates a vicious circle. Many of the jobless and homeless are too uneducated and marginalised to obtain access to the limited assistance that is available. Many have never contributed to social security or pensions schemes - for many years there was no compulsory contribution to these schemes - and therefore are not entitled by law to standard benefits.

There is now a growing realisation from officials that much more has to be done to

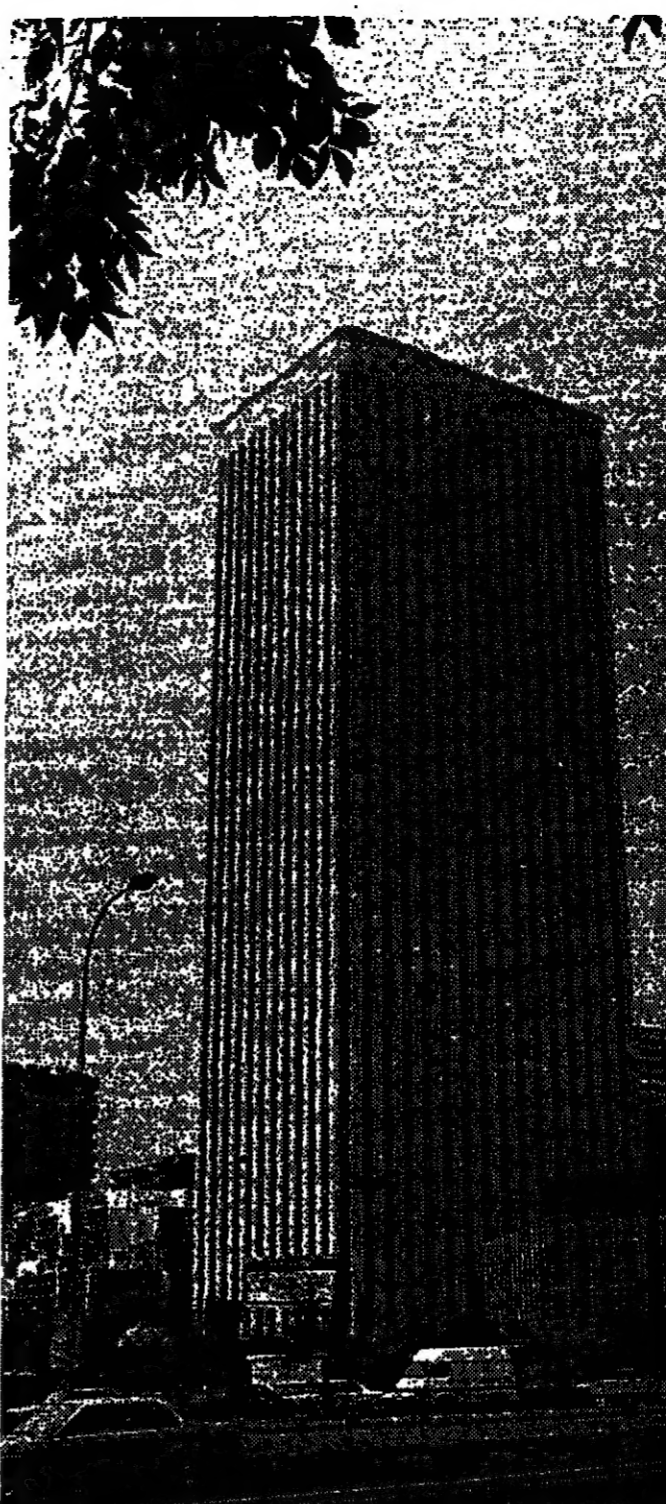
begin to alleviate the problem. Some autonomous regions, the Basque Country and Cantabria, have already introduced a minimum income of Pta 30,000 a month a family plus Pta 5,000 for each member of the family in need. The regional governments of Catalonia and Madrid are expected to launch similar schemes this year.

The Government is preparing a law to allow benefits to be paid to people that have never contributed to welfare schemes. A minimum monthly pension of around Pta 26,000 and child benefits of Pta 3,000 per child may be introduced. Mr Pilar Malla, Caritas general secretary in Barcelona, welcomes both moves. The minimum pension could help more than 40,000 people over the age of 65 in Catalonia, she says. Additional child benefits will also help in the large number of poor single parent families.

At the moment, a woman on her own with three or four children receives no help at all from the administration, apart from Pta 250 a month for each child, which is a joke," she says.

Providing money will help, but Mr Roldan believes a broader policy aimed at integrating or re-integrating people is necessary. Most of the very poor, and they include youngsters who have never worked, are unsuited for work because of their lack of skills. In 1985 Spain's unemployment was 23 per cent of the active population, since then the numbers have come down to 15 per cent, but some people have been unemployed so long that they have become unemployable before receiving rudimentary education and training.

"We don't think that it's sufficient just to give people money. They need to be integrated within society. What is necessary is to teach people how to help themselves by providing them with skills. A national programme to develop and train people is needed as well as primary assistance," he says. Caritas has such a programme but the task is enormous. More government help would be welcome. "We need to raise public consciousness and more solidarity," says Mr Roldan. It looks different from the top of the Torre Picasso.



If the tenants of Madrid's Torre Picasso (above) lower their sights, they can find a landscape of poverty near home

FILMS AND VIDEO

The minister's double-take

THE WAR is over between Spanish film-makers and Mr Jorge Semprun, the Minister of Culture.

But there will be little respite in the industry's battle for financial survival, and a competitive share of Europe's forthcoming audiovisual boom, even if it means coming to terms with a minister who became allergic to subsidising films that did not repay their investment and who threatened the industry with a decree that cut state backing.

That support represents a third of an average film's budget of Pta150m (£820,000). This support is vital in a land where cinematographers, shunned by banks that think them too high a risk, must put up their own capital, scrounge from friends or family and fight for TV rights so as to make up their cheapskate budgets.

After years of despair from the industry last summer and calls for urgent negotiations from a hastily-formed Committee of Film Artists and Technicians, Mr Semprun held back his lethal decree. Consultations under way could produce a plan covering not just films and ways of financing them (including wooing a reluctant private sector), a new film school and modern studios, but also the vexed question of unruly video markets and box office takings.

Video rights are sold for a modest sum, then everyone but the film-maker takes a profit: rental clubs, 750 neighbourhood video relay companies and video halls. No legislation covers this free-wheeling video world; now, with the cable/satellite/video boom in the offing, local film-makers want action.

Producers and directors also want official, computerised checking of box office takings at least in the 300 main cinemas - ending endemic under-reporting of returns that, in the estimate of Mr Antonio Jimenez Rico, president of the two-year-old Academy of Motion Picture Arts and Sciences, could equal 40 per cent of returns.

more for themselves but producers lose another means of recouping their budgets. Returns now come in nine or 10 months after exhibition: computerisation would speed up checking and reimbursement.

Cinema audiences are dwindling for all films, imported or Spanish, and 2,500 movie theatres have shut in a decade. Thus TV rights with TV co-financing are paramount: nowadays, says Mr Jimenez Rico, 80 per cent of Spanish films have TV co-financing and guaranteed viewing time.

Not just national state or the new private TV channels supplement a producer's budget and reach a wider audience: local channels run by regional governments are a precious source of funds especially in Catalonia, the Basque Country and Andalusia, which partly fund what they consider worthwhile projects.

The latest to benefit from local backing is the 39-year-old Paco Perinan, French-trained producer/director/scriptwriter of "Contra el Viento" (Against the Wind), a drama set against the background of Almeria's desert (former home to the "spaghetti westerns" of the 1960s) and abandoned mines. Having lured Spain's intense young stars, Antonio Banderas and Emma Suarez, and a Spanish-speaking American Bruce McGuire, fresh from "Batman" for his leads, Perinan is after national exposure, with a boost from his native Andalusia.

Like all Spain's cinematographers, Perinan had to cut his budget to a minimum, use natural settings because constructed sets cost too much, and struggle to make a technically-refined product with miserly financial resources.

But like his peers, he is prepared to battle on in a tiddier environment, they hope where they and their European counterparts can amass a stock of audiovisual products for the post-1992 boom. The alternative - if European film-making is not helped by better-regulated markets and some government support - is being swamped by US material and saying goodbye to a free, independent European production system.

Diana Smith

BUSINESS GUIDE

WHEN IT is convenient to do so - while trying, for example, to explain why so much of Spain is underdeveloped - Spaniards like to defend themselves by reminding green foreigners that Madrid lies exactly half-way between Rabat and Paris.

This is supposed to cover a multitude of sins. Why, for instance, perfectly normal, even wealthy, Spaniards tolerate their neighbourhoods being smothered with litter and construction rubble. In Madrid, the enclave of Puerto de Hierro is about as expensive as one can get. Million-dollar houses, fenced in and often guarded, are common. The place is ringed with what looks like a garbage dump and no-one seems to care.

Lesson one, we are told, is that Spaniards seem mainly to concern themselves only with what is theirs. Their house, their family.

Lesson two is that Spaniards, for the most part, are incredibly indulgent. They put up with amazing traffic congestion, an appalling telephone system, the astonishing bureaucracy of the courts, and slovenly services with almost saintly ease. They are nice people.

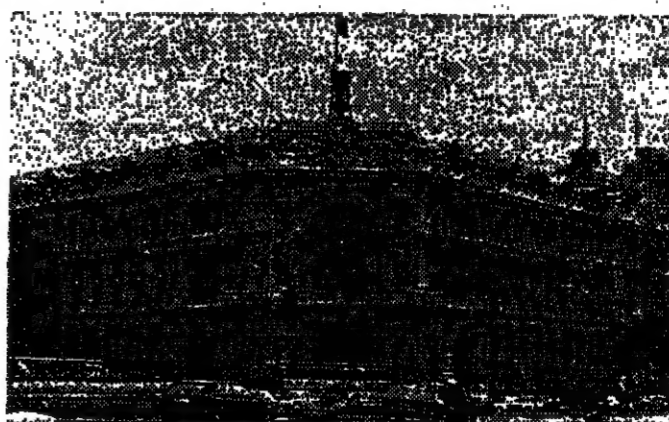
Which, for the foreign businessman or woman arriving here to work for the first time, is the point. In Spain, people hate to disappoint and it can get newcomers into terrible trouble.

The problem is the culture of the *intimo amigo*, the very close friend.

Typically, on arriving, a newcomer will be lunched with an established contact when the name of a potentially helpful stranger will crop up. You need, say, a work permit quickly. "Hey," the lunch partner will exclaim, "don't worry. He (the stranger) is a very close friend. I'll fix it."

Now, your contact may well know the person in question by sight but there is normally absolutely no reason to believe: that he has ever said more than hello to said stranger at a party; that the stranger would know him by sight and remember his name; that the stranger likes your friend.

You could wait a long time for the work permit. I stood with a fairly senior Spanish banker at a reception in Madrid recently and of the dozen or so people who swept up to clasp him in the vigorous Latin manner, he confessed he knew the names only of four. In business circles at least, people are under great pressure to know the influential. Few people would admit to not having an *intimo amigo* at, for instance, the Bank of Spain.



Few would admit to no "intimo amigo" at the Bank of Spain

Partly, this goes back to an old Castilian fear of isolation. Unlike Americans, Spaniards have not spread themselves across their wide-open countryside. The once forbidding central plain is instead dotted with little villages clotted together for warmth and companionship.

The other part of the explanation is sadder - in Spain it is who you know, not how good you are, that counts. A nightmare bureaucracy has made influence peddling unavoidable for even the most basic business requirements, such as a telephone.

Foreigners arriving in Spain often try to do two things very quickly. The first is to hire a good secretary. A fearless, demanding and potentially unpleasant person if possible.

This helps with the bureaucracy. The other thing is to hire a young socialite. This person may do you no other good than to be able to tell you, accurately, whether someone's claim to be a good friend of another is true. The socialite should also find you a well-connected lawyer. Most international banks in Madrid employ such people and they are invaluable. An aristocratic background and a good university help.

The socialite will probably know the people whom you want to meet. They would have hunted with his or her father. The socialite may not be close friends with the VIP in whom you are interested (and he would be confident enough to say so) but he or she would

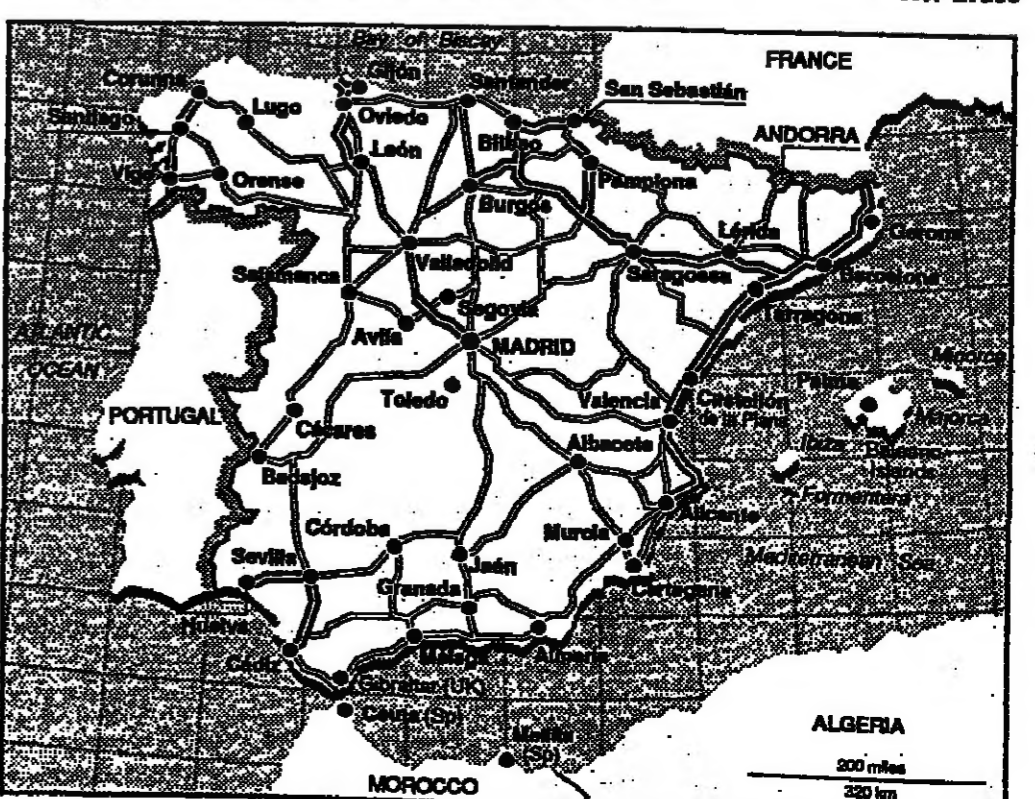
probably know the last but one boyfriend of one of the VIP's wife's cousins. Get a foot in the family door and you are away. Very little else works unless someone wants a favour from you.

Once the business you are setting up is functioning, hold a press lunch at a good restaurant. Lots of people will come and you will get coverage. The important thing, though, is to leave nothing unexplained or unclear. The Spanish business press, though flourishing, is young and inexperienced. The newspapers are put together in a hurry and there is never much time to check facts or correct mistakes.

If you ever have to sack anyone, be careful. One British executive who recently set up an operation in Madrid dismissed an employee early on and suddenly found a manner of stories appearing in the press about his company, mostly to the effect that it was about to collapse. The articles persisted for months, and none of his denials to the press did the slightest bit of good.

It is probably just as well to play your cards close to your chest when you come to Spain. Wait until someone does you a favour for nothing before you, too, begin calling strangers your very good friends. Many good people will help you but the smiling faces, the hearty welcomes and endless promises are not the real Spain. This is a difficult, introverted, country. In business, the *intimo amigo* is normally either a relative or a mirage.

Peter Bruce



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